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Jean-Bertrand Aristide played a big part in his own downfall. But Washington made mistakes too … More on this week's lead article

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Politics this week

Mar 4th 2004
From The Economist print edition

More killings

AFP

Suicide bombers killed at least 169 people in a series of attacks on **Shia Muslims** in the Iraqi holy city of Karbala, where they were marking the religious festival of *Ashoura*, and in Baghdad. America's chief suspect was Abu Musab al-Zarqawi, a Jordanian admirer of al-Qaeda, known to be active in Iraq, with a $10m price on his head.

See article

On the same day, at least 40 Shias, also celebrating *Ashoura*, were killed by grenades and gunfire in the **Pakistani** city of Quetta.

See article

Leaders of Iraq's **Shia and Sunni Muslims** on the American-appointed Governing Council urged restraint, and said that the council's agreement on March 1st to sign up to an interim constitution known as the “basic law” was an omen of peace.

See article

The draft of an American plan, known as the **Greater Middle East Initiative,** to spread democracy in the Arab world and beyond, received critical reviews from regimes in the area. Egypt's foreign minister said that reform was not possible because of “Israeli aggression”.

See article

Israel's prime minister, Ariel Sharon, denied that he had been influenced by his friendship with the father-in-law of an Israeli, Elhanen Tannenbaum, recently released from Lebanese captivity in a prisoner swap that Mr Sharon oversaw.

The **African Union** said that its members had agreed to a plan to set up their own Security Council, with a standing army, to prevent or stamp out civil war in the continent.

A change at the top

Troops from America, France, Canada and Chile arrived in **Haiti**, with a UN mandate to provide security, after President Jean-Bertrand Aristide resigned and was flown to Africa. But the troops said they had no orders to disarm rebels, whose leader, Guy Philippe, proclaimed himself the head of a reconstituted national army. The chief justice was sworn in as president; Mr Aristide's prime minister stayed on, and declared a state of emergency. Caribbean leaders refused to send troops and called for an inquiry into the circumstances surrounding Mr Aristide's departure.

See article

In **Venezuela**, at least six people were killed and dozens wounded in five days of opposition protests as the country's electoral council placed seemingly insurmountable technical obstacles in the way of a recall referendum on the presidency of Hugo Chávez. Although some 3.4m people signed petitions calling for the referendum, only 1.8m of the signatures were deemed valid.

Kerry's Super Tuesday

EPA

John Kerry secured the Democratic nomination for president by winning nine of the ten states in the **Super Tuesday** primary elections. John Edwards withdrew from the race after failing to win either Georgia or Ohio, two states where he had campaigned hard. Howard Dean, who withdrew from the race last month but kept his name on the ballot, won the primary election in his home state of Vermont.

See article

California's voters passed two ballot initiatives proposed by Governor Arnold Schwarzenegger to tackle the state's budget crisis. One measure authorises a $15 billion bond to balance the budget.

See article

A Singapore-flagged tanker carrying ethanol exploded and sank 50 miles off the coast of **Virginia**. Three of the *Bow Mariner*'s crew were killed and 18 others were missing.

Putin's surprise

Russia's president, Vladimir Putin, found in **Mikhail Fradkov** a surprise choice to be his next prime minister. Mr Fradkov, currently Russia's ambassador to the European Union, had been tipped by almost nobody. A former bureaucrat and junior minister, he is thought to be too obscure to hope to take over from Mr Putin, who is due to be re-elected to a second four-year term on March 14th—but that was also said of Mr Putin until 1999.

See article

The veteran Turkish-Cypriot leader, Rauf Denktash, blamed Greek-Cypriot leaders for the stalemate in the latest talks on unification of **Cyprus** under a revived UN plan. It now seems that the talks might not result in a settlement that can be approved by both sides in time for May 1st, when the southern (Greek) part of the island is to join the European Union.

A minority **Serbian government** took office, with Vojislav Kostunica as prime minister. The government is backed by the party led by Slobodan Milosevic, whom Mr Kostunica ousted as Yugoslav president in 2001, and who is on trial in The Hague for war crimes. Mr Kostunica says he does not wish to hand further suspects over to the tribunal in The Hague.

France suffered a bout of nerves after a shadowy terrorist group issued threats to blow up parts of the railway network. Police defused a time-bomb near Limoges in late February. The government appealed to the press not to publicise the threats, but the news leaked out.

Fashion police

Turkmenistan's president, Saparmurat Niyazov, passed a decree forbidding young men to wear long hair or beards. He said the education ministry should carry out checks. Listening to car radios and smoking in the street were also forbidden; opera and ballet performances were banned on the grounds that they are unnecessary.

Reuters

The six-nation talks over **North Korea's** nuclear programme ended with no agreement other than a decision to meet again later this year. A report from America's State Department claimed that North Korea's authorities are probably involved in the trafficking of drugs.

See article

In the **Philippines**, Fernando Poe junior, a popular film star and one of the leading presidential contenders, was cleared by the Supreme Court over his nationality. He will now be allowed to run in the presidential elections scheduled for May 10th. Polls show Mr Poe level with Gloria Arroyo, the current president.

Abdullah Badawi, **Malaysia's** prime minister, dissolved parliament and called an election, expected by the end of March. Mr Badawi took office last October. He is thought to want an endorsement for his agenda, including an anti-corruption campaign.

India announced that parliamentary elections would begin on April 20th. The country's electoral marathon, which includes four rounds, will last for three weeks.

See article

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Business this week

Mar 4th 2004
From The Economist print edition

Shareholder activism

Angry shareholders in **Walt Disney** delivered a stinging rebuke to Michael Eisner, the entertainment giant's long-serving boss, withholding 43% of votes at his re-election as director. Disney's board responded by stripping him of the title of chairman but kept him as chief executive. This is unlikely to appease critics.

See article

Royal Dutch/Shell's overstatement of its oil reserves claimed some victims. The oil company's chairman, Sir Philip Watts, and another top executive succumbed to shareholders' pressure and resigned. Jeroen van der Veer, boss of the Dutch arm, will take over as chairman.

See article

Belgium's **Interbrew**, the world's fourth-largest brewer, agreed to pay *euro*9.2 billion ($11.2 billion) for a 57% stake in Brazil's **AmBev**, the fifth-largest. The tie-up will create the world's biggest beermaker by volume.

See article

Crash and Bernie

Bernie Ebbers, former chief executive of WorldCom, was charged with fraud and other offences after an accounting scandal at the American long-distance phone company in 2002. He pleaded not guilty. Meanwhile, Scott Sullivan, WorldCom's former finance chief, pleaded guilty to similar charges and could face a lengthy spell in prison.

See article

Richard Scrushy, a former CEO of HealthSouth awaiting trial on charges relating to a $2.7 billion accounting fraud at the firm, mounted an unusual defence. He used the first episode of his new morning-TV show to denounce the media as “old Satan sneaking in the back door”.

An American appeals court struck down Federal Communications Commission rules requiring **local phone companies** to allow rivals to share access to their phone lines. Incumbent firms argued that competitors can gain access to their networks at unreasonably low prices.

Black's gambit fails

The scramble for Lord Black's media empire was reinvigorated after an American court blocked him from selling control of his newspapers—including Britain's *Daily Telegraph*—through a sale of Hollinger Incorporated, which holds a controlling stake in **Hollinger International**, publishers of the papers. Minority shareholders, and directors, of Hollinger International opposed the manoeuvre.

Richard Desmond, a British media magnate, sold off his raft of pornographic publications for some £20m ($36.5m), possibly to help finance a bid for the *Daily Telegraph*.

Back in store

Grocery workers in southern California voted to accept new contracts and return to work after a four-month strike at stores owned by Kroger, Albertsons and Safeway. Unions claimed that health-care benefits and pensions had been safeguarded; sceptics said that few concessions were won by the lengthy industrial action.

United Airlines' efforts to secure $1.6 billion in federal loan guarantees to complete its restructuring plan and emerge from Chapter 11 bankruptcy ran into opposition. A group representing America's low-cost airlines pledged to fight the handout in the courts, claiming unfair competition as United increases its own no-frills services.

SCO, a pariah firm in the software industry, sued DaimlerChrysler and AutoZone for using the Linux operating system on their computers. SCO claims to own the rights to Unix, an older operating system, and alleges that pieces of it have been plagiarised in Linux, whose source code is open to the public and improved by a community of volunteer programmers.

The EU began imposing sanctions on a range of **American imports** in retaliation against the Foreign Sales Corporation law, which gives American exporters significant tax breaks. Extra tariffs are expected to cost some $315m this year, rising to $666m in 2005.

See article

Money in the bank

HSBC reported the biggest profit ever by a British bank; it made a pre-tax profit of $12.8 billion in 2003, a 33% increase over the year before. Much of the improvement is attributable to Household International, an American firm that lends to the less creditworthy, acquired by HSBC in 2002.

London Stock Exchange made a move in the battle to dominate share dealing in Europe. It made hefty cuts in its charges for dealing Dutch shares in an effort to wrest business from the Amsterdam exchange, a partner with Belgium and France in Euronext, a European exchange.

See article

Top dollar

The **dollar** reversed some of the past year's declines against the euro and yen. The greenback hit its highest level in 2004 against those currencies as investors were increasingly heartened by America's growth prospects.

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The Caribbean

Whose coup in Haiti?

Mar 4th 2004
From The Economist print edition

Jean-Bertrand Aristide played a big part in his own downfall. But Washington made mistakes too

Get article background

AFP

NO, IT is not Iraq. But once again, American television screens have been full of pictures of their country's troops being helicoptered into a foreign land, to stake out bridgeheads and secure perimeters. Once again, the marines are being dispatched in the name of peace, order and democracy. In Haiti, their mission is on a much smaller scale (up to 2,000 American troops will be involved), and is less dangerous than in the battlefields of the "war" on terror. It is cast in an older mould, a police action in Uncle Sam's backyard. But as so often in the past, the marines have flown in through a cloud of controversy and much debate as to how deep and lasting should be their commitment. And as in Iraq, the Americans are already being accused of being slow to take charge, allowing a power vacuum to develop.

The Americans, along with French, Canadian and Chilean troops, form the spearhead of a "multinational interim force" approved by the United Nations' Security Council to "secure and stabilise" the country, facilitate humanitarian aid and establish law and order. Its arrival followed the ousting of President Jean-Bertrand Aristide, Haiti's elected president, by a combination of armed rebellion, popular protest and French and American pressure.

A thuggish rebellion

No sooner had Mr Aristide landed in African exile than he claimed to be the victim of kidnapping and an American coup against democracy. "Nonsense," George Bush's spokesman retorted; Mr Aristide had agreed to resign to avoid further bloodshed. But the controversy does not end there. The Bush administration faces two other, somewhat contradictory, criticisms (see article). The first is that by refusing to send troops until Mr Aristide, a leftist former priest, stepped down, it in effect endorsed the thuggish armed rebellion against him. The second charge is that it was far too slow to appreciate the seriousness of the Haitian crisis.

These criticisms owe something to electioneering in the United States. But there are serious questions to answer. Mr Aristide became the sixth leader in Latin America since 1999 to be ousted before the end of his term. That is worrying confirmation that the region's democratisation, one of the great achievements of the past two decades, remains far from consolidated. The United States did much to promote the spread of democracy, and Mr Aristide was part of the process. In 1990, he became Haiti's first freely elected leader. Within months he was overthrown by a military coup. In 1994, Bill Clinton sent 20,000 troops to restore him to power. The Bush administration has seemed more ambivalent, withholding support from elected leaders it dislikes. In 2002 it failed to condemn a coup (quickly reversed) against Hugo Chávez in Venezuela, one of America's main oil suppliers.

Establishing democracy in Haiti, the poorest and most misgoverned country in the Americas, was never going to be easy. The Americans and the United Nations quickly gave up. But Mr Aristide, too, carries much of the blame. The same dogmatic inflexibility that made him a brave opponent of dictatorship made him a poor democratic ruler.

Having installed an ally as president in 1995, Mr Aristide was complicit in delaying legislative elections for three years, with a consequent breakdown of government and the loss of several hundred million dollars of aid. When those elections were at last held in 2000, they were flawed. Several opposition candidates were murdered; the electoral court was browbeaten into awarding ten disputed Senate seats (and thus a majority) to Mr Aristide's party. Mr Aristide was then re-elected president in a poll boycotted by the opposition.

Ironically, Mr Aristide would almost certainly have won a free vote. But he was turning into another Haitian despot, wanting absolute control of his destitute country. He relied on gangs to enforce his rule. So reviled had this become that he was toppled by a rag-tag army of as few as 200 rebels.

But the opposition's democratic halo is equally tarnished. It refused all compromise with Mr Aristide, seeking his overthrow. Its claims not to support the armed rebels rang hollow. The Bush administration insists it gave no support to the rebellion. But it blocked aid to the government for years. And the Republican Party gave active help to the opposition.

The most plausible charge against the Bush administration is that it looked away as Haiti's discontents came to the boil late last year. Only last week, when the Americans became alarmed at a potential exodus of refugees, did their diplomats put their weight behind a compromise that would have kept Mr Aristide in power in a coalition government with the opposition, pending fresh elections. That was the best option; Mr Bush acquiesced in its rejection by the opposition.

But the United States was hardly alone in refusing to prop up Mr Aristide. France and Canada took the same view. And countries that are prepared to risk their troops to keep the peace are surely entitled to set the conditions on which they will do so. Most important of all, though perhaps 80 Haitians were killed in the rebellion, Mr Bush can claim—so far—to have forestalled the bloodbath forecast by many.

Dealing with elected despots

Will the occupiers be successful this time in laying the basis for a more democratic and less poor Haiti? Already, there are worrying signs. They are supposed to be implementing a plan drawn up by Caribbean mediators. The chief justice was named as the interim president. Mr Aristide's prime minister remains in office. A council of “wise men”, to be drawn from both sides, is supposed to govern until elections can be held. After order is restored, the UN plans a “follow-on” force devoted to supporting constitutional rule.

Yet the suspicion remains that the United States is blessing a coup. Guy Philippe, the quick-witted rebel leader, was allowed to march into the capital, where he proclaimed himself head of a reconstituted army. The abolition of that repressive institution was one of Mr Aristide's achievements. What Haiti needs is a stronger and better police force. Mr Philippe, a former police chief, may deserve a place in that—provided there is no truth to allegations, which he denies, of drug trafficking. Some of his followers with death-squad pasts belong in jail.

Outsiders will be needed for several years if Haiti is to become a better place, though not necessarily in large numbers. Haitians themselves need to learn to work together. And just as much as aid, mobilising the resources of the Haitian diaspora is vital in fighting poverty.

The lasting question raised by the past month's events is how to deal with elected presidents who start to rule despotically. The world has fumbled this in Zimbabwe. The United States may well be faced with it again in Venezuela, if Mr Chávez quashes a recall referendum on his rule. There are no easy answers. But one lesson is not to allow such questions to become tainted by partisanship at home. The same rules should apply to elected despots of the right (such as Peru's Alberto Fujimori, accepted for too long by the United States as an ally) as to those of the left. Haiti has been ill-served by becoming the plaything of partisan politics in Washington. There should be no place for coups in the democratic Americas.

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Iraq

Islam's internal war

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And they call it “resistance”

AP

WHAT sort of people are willing in the name of God to slaughter some 200 co-religionists during a sacred religious festival? The same sort who were happy to fly hijacked airliners brimming with passengers into the World Trade Centre in September 2001. Since the American-led invasion nearly a year ago, much of the violence in Iraq has been dignified as “resistance”. Some of it can indeed be explained by the outrage any proud person might feel when a foreign army occupies his land. But not all of it. This week's mass murders in Baghdad and Karbala are a manifestation of something else: not a Muslim war against America but a war within Islam. And although America has been drawn into this conflict, it is not the Americans who have most at stake. This, above all, is a war that will determine the future of the Arabs.

Many people take the view that the West should never have let itself be sucked into this war, least of all by invading and occupying a large Arab country such as Iraq. Others say that September 11th left no choice. Either way, that controversy is about the past, not about what ought to happen next. They may differ on the mechanism, but it is taken for granted by most people in the West that the right course now is to allow Iraqis to elect a government of their own choosing. In the Middle East, by contrast, the controversy is only just beginning. Almost all the Arabs (except of course the Iraqis) were united against the idea of America removing Saddam Hussein by force. But Arabs are far from united about what should happen next. In both Iraq itself and also the wider Middle East, the idea of democracy still has all too many enemies.

Democracy's usual enemies

Inside Iraq, the most effective of those enemies appear to be Islamist radicals who take their inspiration from Osama bin Laden. They believe that democracy, which entails the rule of man by man, is a negation of Islam's insistence on man's obedience to God alone. In an intercepted letter to al-Qaeda, Abu Musab al-Zarqawi, one of the main foreign *jihadis* in Iraq and America's prime suspect, speaks of the danger of Iraq's Shia majority coming to see democracy as a neat way to gain the upper hand. This prospect has made it easier for the *jihadis* to make common cause with members of the former Sunni-dominated regime who, even if they are secular, have obvious reasons of their own to oppose a Shia ascendancy. Both groups are able to exploit the widespread anti-Shia prejudice of Sunni Muslims, who form the majority in most Arab countries and in Islam as a whole. A few hours after this week's attacks in Iraq, more than 40 members of Pakistan's Shia minority were murdered in a similar attack in Quetta.

Democracy's enemies in the wider Middle East are less forthcoming than the *jihadis* about their true feelings. Arab regimes have claimed for years to be edging at their own stately pace towards democratic reform. But no reform that they have planned or implemented is as ambitious as the democracy America says it intends to install in Iraq, and which George Bush has held up as a future model for the region.

Arab rulers pay lip service to democracy in the abstract, either to keep in with the Americans or to placate their own people's demand for it. But, unelected and often unpopular, they would not be human if they did not feel a certain ambivalence about whether they really wish the experiment in Iraq to succeed. They have reacted with a prickly not-invented-here indignation to some anodyne pro-democracy sentiments in a document America is calling its “Greater Middle East Initiative”. This ambivalence is all

the stronger given the emergence of the Iraqi Shias as America's main potential partners in the project. Saudi Arabia's Shias are a potentially volatile minority living in some of its most oil-rich regions: little wonder that the twin notions of federalism and democracy being talked about in Iraq have long been anathema to the House of Saud.

And its surprising new friends

And yet, in spite of everything, the American experiment in Iraq might yet succeed. For the very week that saw the slaughter of the Shias during their *Ashoura* commemoration began with a rare breakthrough on the political front. The timetable for the promised elections is still in disarray, the meaning of the "transfer of sovereignty" pencilled in for July 1st is still in doubt, but the main Shia, Sunni and Kurdish power-brokers on Iraq's Governing Council do appear at last to have negotiated a "basic law" that will serve as an interim constitution until a permanent one can be drafted by an elected body. The details were not expected to be published until March 5th, but two of the most vexed issues facing post-Saddam Iraq—the role of Islam, and relations between the centre and the provinces—do seem to have been hammered out. Islam is to be "a" but not "the" source of law; and the Kurds, who might otherwise have split away, are to be offered a large portion of autonomy in their own provinces under a federal constitution.

This agreement may not hold against the onslaught of all the groups who have an interest in undermining it. One of the great disappointments of the past year has been the lethal potency of the "resistance" in Iraq and the limited ability of the coalition armies to protect their own soldiers, let alone provide security for the population as a whole. The *jihadis* and their allies might yet succeed in destroying the American project by provoking a Shia-Sunni war and rendering the country ungovernable. Nonetheless, the early signs this week were that the discipline of the Shias would hold. The Shias are far from being natural allies of America; ordinary Shias vented their rage at America for letting this week's killing happen. But, as an oppressed majority in Iraq, they have been quick to see the potential of the democratic idea to give them the long-denied power to which their numbers entitle them.

Will Shia empowerment spread foreboding in the wider Muslim world? After this terrible week, it would be foolish to deny the dangers that can arise from this ancient schism. But the main choice for Muslims at present is not between the Shia way and the Sunni way. It is between the democratic way and the autocratic way. That, now, is what is at stake in Iraq.

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America's election

The Brahmin populist

Mar 4th 2004
From The Economist print edition

How left-wing is John Kerry?

Reuters

TIME was when John Kerry looked a steady, dependable, moderate sort of chap. With screaming Howard Dean and crowd-pleasing John Edwards to the left of him, he was a man the Democratic establishment could embrace with relief. Now that he stands alone, after his near-sweep of the Super Tuesday primaries, his liberal colours suddenly seem more obvious. It may be that the Democratic nominee for president is still too left-wing for his party's good.

It is not just the pictures from 1970s' anti-war rallies, or the easy slurs about Massachusetts. In conservative eyes, Mr Kerry has a long bad record. The *National Journal*, in its latest issue, ranks him the most liberal member of the current Senate on the basis of his votes last year. The evidence is much the same for previous years, too. In 1986, 1988 and 1990, over 138 votes on the economy, social policy and foreign affairs, he did not side once with conservatives.

Several of his positions on social issues—for abortion choice, for civil unions, against the death penalty—could be expected of any non-southern Democrat. They can also be defended from the moral high ground (not that this will help him in Kansas or Wyoming). On foreign policy, his liking for multilateralism, typical of wimpish Democrats, is balanced by a willingness to endorse unilateral military adventures (see article). In either sphere, he is not a glaring target for Republicans.

But these are not the core of his campaign. Mr Kerry recognises that Americans care most about the loss of jobs overseas and the slow pace of economic recovery. And here the Swiss-educated Boston Brahmin strays close to left-wing populism. He rails against “Benedict Arnold” bosses who betray their workers by shipping jobs abroad. He promises to restore in his first 500 days all the 2m-3m jobs lost under George Bush. Companies will lose their tax breaks if they send jobs offshore, and they must give workers notice of doing so. Manufacturing firms, especially vulnerable, will get a tax break for two years.

Mr Kerry also wants to reconfigure the budget to help America's vast “middle class”. He means to repeal Mr Bush's tax cuts for households earning more than $200,000 a year, restore a top tax rate, and close tax loopholes for corporations. This, he reckons, will provide extra money to spend on health care, roads and schools. The sums are not done yet, and don't add up so far; but the message, to soak the rich, is selling.

There is more. Mr Kerry proposes to review all trade deals, from the North American Free-Trade Agreement (NAFTA) down, to see where labour, dumping and environmental protections need to be tightened up. In future, he says, he will agree to no trade deal that doesn't include such provisions. Flying in the face of free trade, competition and economic evolution, Mr Kerry is posing as the champion of the little man.

Torn two ways

Does he really mean this, or was Mr Edwards pushing him into it? Not entirely. Mr Kerry badly needs the votes of industrial swing states, such as Michigan and Ohio, where most of those jobs have been lost. He is conscious, too, that when Dick Gephardt left the race the labour unions turned to him. There is now no one else who can promise government intervention on behalf of the working man. However improbably,

that is a mantle he will have to go on wearing.

Yet Mr Bush has already mocked him for flip-flopping; and Mr Kerry's true instincts are more cautious. He knows that the economic clock cannot be turned back: “I won't come here and tell you...that all the rivers of steel will flow again.” Though he wants to deter outsourcing, the penalties are gentle; he seems to accept it as inevitable, just as he presumably hopes that the recovering economy, rather than a nudge from him, will bring back jobs. Nothing he has promised so far adds up to outright protectionism—which can't be said for Mr Bush.

As for reviewing trade pacts, Mr Kerry is cautious there too. Despite all those left-leaning votes in the Senate, he has always backed free trade. He voted not only for NAFTA and the normalising of trade with China, but also for pacts with Chile and Singapore that included no protections. He has never disowned those votes, and has given no impression that he would do more than put in a soothing phrase or two.

Once the primaries are over, candidates on both sides traditionally seek the middle ground where they can catch the widest swathe of voters. And despite the demagogic talk—as well as the inevitable demonising of Mr Kerry by the Bush campaign—the middle ground appears to be where Mr Kerry truly stands. The next several months will be the test of that.

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Japan

Reform reaches the courts

Mar 4th 2004
From The Economist print edition

Japan's legal system, criminal and civil, is the latest target for the country's drive for reform

AFP

AS EVERYONE knows, Japan is just about the safest country in the world. Women can walk home, late at night, through the centre of Tokyo. You can safely leave your front door unlocked for days. Unless you are mixed up with the *yakuza*, you have less chance of being murdered than of being hit by a meteorite. It ain't broke, one might reasonably think, so don't fix it. Leave Japan's justice system alone.

That, however, is precisely what is not happening. This week, in an intriguing move, Japan's cabinet approved a bill that allows for serious criminal cases to be tried no longer by judges alone but by mixed panels on which laypeople will predominate. The hope is to break what amounts to an over-cosy relationship between Japan's police and its judges, whereby the police bring charges to court only when they have a cast-iron case, almost always based on a confession, and the courts almost invariably convict. This gives rise to two types of hazard: that many cases may not be properly investigated; and that the methods used to obtain evidence and even confessions may not be subject to proper scrutiny.

Alleged criminals can be held for up to 23 days before being charged; their interviews with the police are not taped; and in many cases, these interviews take place without the suspect's lawyer being present. Last week's conviction of Shoko Asahara, leader of the cult that released poison gas into the Tokyo subway in 1995, shows how slowly the wheels of Japanese justice grind. More worrying, perhaps, is that the police had been aware of the cult's nefarious nature for years, but had failed to act. If nothing else, the new bill should inject a bit of vim into a system that has become slow and complacent.

These days, Japan is having a fresh look at almost everything: its political structures, its defence posture, its incestuous banking-business-government combine. So, in the legal world, it is not just the criminal-justice system that is under review. Also making their way, though slowly, through the legislative process are several proposals for reform of various aspects of civil justice, including a wholesale tidying-up of Japan's convoluted system of administrative law. Since the late 1990s, the feeling has been growing among Japanese business groups that a more efficient, even if less consensual, legal system might be to their advantage. Foreign firms, of course, have been saying this for decades, while ordinary citizens who have suffered though corporate or bureaucratic negligence have bemoaned their powerlessness for even longer. As with Mr Asahara's conviction, it is better late than never.

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Shareholder activism

A full-time occupation

Mar 4th 2004
From The Economist print edition

The condition for high shareholder returns is eternal vigilance

AFP

FOR years Michael Eisner has been one of the most autocratic, and best-paid, chief executives in America, a man who has had little patience for anyone questioning his leadership of Walt Disney. So this week's rebellion of Disney's shareholders, which erupted at the company's annual meeting on March 3rd after gathering pace for months, must have come as a rude blow. For a while it seemed as if Disney's shareholders might even oust Mr Eisner. In the event, they failed to do that, but they did force Disney's board to deprive him of the title of chairman, a face-saving compromise which is unlikely to appease critics. Many shareholders will continue to push for his complete removal. Others will now turn their attention to the lawsuit they are bringing against him and other directors over a $140m pay-off to Michael Ovitz, hired and fired by Mr Eisner in the 1990s in the space of 14 months. The case, due to be heard in Delaware in the summer, could incite aggrieved shareholders of other firms to seek similar retribution.

Disney is but the most prominent of a number of cases where shareholders are asserting their rights over their companies' managers in a newly aggressive way. And it is not just in America that their muscle is being flexed. In Britain this week the chairman of Royal Dutch/Shell, Sir Philip Watts, resigned after shareholder pressure following his belated and over-relaxed presentation of the downgrading of Shell's oil reserves. This follows last month's expression of shareholder disapproval at the cavalier way in which the chairman of Sainsbury's, a big but stumbling British grocery chain, appointed as his successor a man with a less than Olympian track record. Shareholders' objections forced the putative successor to stand down.

Costly complacency

About time, and long may it last, is the first and correct reaction to this reawakening of shareholder consciousness. For a number of years at the turn of the century most big investing institutions forgot what the ownership of a company entails. Blinded by the enormous returns their shares were earning in the stockmarket bubble, they allowed too many corporate managers to vote themselves huge and unjustifiable pay packages. It was a costly mistake. When the bubble burst, so too did shareholders' returns. But the pay of bosses did not.

In some instances those managers' greed drove their companies to bankruptcy; in other instances it led the bosses to the dock. But the law is, at best, a blunt and unpredictable instrument for disciplining bosses. It is proving harder for prosecutors to win guilty verdicts in the trials of abusive bosses than many had expected. Even bringing many executives to trial is proving a painfully slow process. Bernie Ebbers, the boss of WorldCom, was charged with fraud only this week although the company he ran (into the ground) went bankrupt in July 2002, and the trial of Jeffrey Skilling, the former boss of Enron, the totem for turn-of-the-century managerial abuse, could well be another two years away. Shareholders need to draw the proper lesson from these episodes: the condition for good returns is nothing less than their eternal vigilance. They should not rely solely on the law, on corporate managers or even on board directors to look after their interests. They have to be more active in looking after those interests themselves. In Britain, the trade and industry secretary, Patricia Hewitt, said as much last week, ruling out new laws to curb rewards to bosses who fail. Increased shareholder activism and tougher, more independent boardrooms have “the potential to remedy the situation,” she argued.

The remedy will be all the more painful because it should involve clawing back some of the gains made by chief executives in the boom years. The idea that no-one can be found to head the world's largest companies for less than several million dollars a year—and some bosses, like Mr Eisner, received tens of millions—is, at the very least, worth questioning. The imperfections in the market for chief executives are considerable, and it is up to shareholders and their representatives in the boardroom to improve the functioning of that market. Even if a talented, and honest, chief executive is at the helm, shareholders need to know what he is doing, and why.

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About sponsorship

Merger regulation

Of God, Larry Ellison and antitrust

Mar 4th 2004
From The Economist print edition

America's trust-busters are not infallible, and they have just made a mistake

Getty

"WHAT is the difference between God and Larry Ellison?" asks an old Silicon Valley joke. Answer: "God doesn't think He is Larry Ellison". But the differences do not stop there. For instance, Mr Ellison—or, more precisely, his company, the hubristically named Oracle—has just fallen foul of America's antitrust regulators who have, so far, wisely steered clear of challenging God Himself. They have had better luck against the computer industry's earthly Almighty, Bill Gates, winning a big case in 2000 against Microsoft, even if their ambitious attempt to break up the firm was overturned on appeal. With the Microsoft case behind them, perhaps they felt that tackling Mr Ellison, another of the industry's dominating billionaires, was called for. But the Department of Justice's (DOJ) move to block Oracle's attempted hostile takeover of PeopleSoft, a rival business-software firm, is simply mistaken.

Trust-busting is a terribly hard thing to do well. If an omniscient being were presiding over a flawless antitrust policy, He would intervene to block harmful monopolies, but would not stop the creation of those temporary monopolies that are the rewards for superior corporate performance. It is such rewards that often inspire firms to innovate, and thereby generate economic growth. Alas, spotting whether or not a monopoly is temporary requires accurate knowledge of the future—and human trust-busters are not omniscient. Instead, they must rely on the forecasts of economists. That is why, though strong antitrust is desirable, the burden of proof should be on trust-busters to show that their intervention really is necessary.

Consult an oracle

Omniscience is especially hard to achieve in a dynamic industry undergoing rapid change, such as information technology. Here, the potential for making a mistake in guessing the future shape of the market is huge. That is not to deny that antitrust action is sometimes right even in high-tech industries: Microsoft's dominance became so large, and so persistent, that it deterred rivals from innovating. Some restraint on the software giant's remorseless extension of its Windows monopoly was necessary. But in such a fast-changing industry, the treatment of Microsoft should probably be the exception, not the rule. The DOJ's move against Oracle is a case study in why this is so.

According to the DOJ, if Oracle is allowed to acquire PeopleSoft, there will be a damaging reduction in competition. (It has been encouraged in this view by PeopleSoft's boss, Craig Conway, despite the fact that, not two years ago, he actually proposed a merger to Mr Ellison.) The DOJ says that the merger would reduce competition from three firms—Oracle, PeopleSoft and SAP, the market leader—to two. But this conclusion stems entirely from the DOJ's absurdly narrow definition of the relevant market as software "that can be integrated into suites of associated functions from a single vendor with performance characteristics that meet the demands of multifaceted organisations with high-level functional needs". In other words, to the DOJ, the market is that served by companies that sell complete suites of business software to big firms.

But it requires only a slightly broader definition to reveal a market that would remain competitive even after an Oracle-PeopleSoft merger. Big computer-services firms such as IBM and Accenture thrive precisely by sticking together different software from different suppliers, some of which (Oracle,

PeopleSoft and SAP) offer everything as a bundle, while others (such as Siebel, Lawson and Geac) specialise in different sorts of software. Meanwhile, Microsoft has announced its intention to enter the high-end business-software market, and has already spent $2 billion preparing to do so. The internet's disruptive presence has also begun to intrude, through “application service providers” who supply business software over the web. And, of course, there is the growing threat of outsourcing. Has the DOJ not yet heard of Bangalore? In this highly competitive market, there is no need to fear the merger of Oracle and PeopleSoft. Indeed, such a merger might even create a firm better able to compete with Microsoft. You don't need to be God, or Mr Ellison, to see the attractions of that.

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Letters

Mar 4th 2004
From The Economist print edition

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FAX: 020 7839 2968 E-MAIL: letters@economist.com

Working overseas

SIR – Like Gregory Mankiw, you get the facts right but their meaning wrong ("The great hollowing-out myth", February 21st). While some Americans are swayed by the media mania over the "jobless recovery" others know that offshoring is an economic reality with at least some benefits. The shock that brought this to the fore is that the "knowledge worker" jobs that Americans were told to prepare for are leaving as well. The unspoken question is: "What will we do for a living?"

As solutions, one party offers cutting education of all kinds, while the other promises protectionism. No one in America is willing to say we have brought this upon ourselves. Expect more shrill rhetoric, buck passing, scapegoats and bad policy.

Charles Faulkner
Chicago

SIR – You fail to understand the hard facts of American politics. George Bush got fast-track authorisation by a vote of 215 to 214, despite 190 House Democrats voting against the measure. Only that one extra vote permitted the Doha round of trade talks to begin. It was not obtained by love or gentleness but, necessarily, by concessions on steel, textiles and more.

The Democratic Party is almost uniformly opposed to pursuing further reductions in trade barriers. You decry identifying "globalisation as the enemy", and then assert that John Kerry and George Bush do so "by default". Thus you lump together clear opposites, obfuscating the reality of the issue. Only a second term for Mr Bush holds any hope that Doha will succeed on behalf of the world's poor.

Alan Batchelder
Tryon, North Carolina

SIR –*The Economist* has offices in London, New York, Hong Kong, Chicago, Frankfurt, Los Angeles, Paris, San Francisco and Singapore—exceedingly expensive cities to employ journalists. There are doubtless thousands of English-speaking journalists in Delhi and Chennai who would bash away at keyboards for far less pay and expenses. I look forward to the offshoring of your position and a reduction in my subscription fee.

Declan O'Riordan
Macclesfield, Cheshire

India's real problem

SIR – Suggesting that the comparative lack of economic progress for the past few decades in India is caused by strained relations with Pakistan is like saying that the cold war is the reason behind the recent economic malaise in America ("Let it shine", February 21st). To suggest further that India has to give away a sizeable chunk of Kashmir to placate a nasty bunch of terrorists and troublemakers across the border is perverse. Since when has appeasing the terrorists led to greater peace and stability anywhere?

Much of the blame for India's lack of progress can be heaped upon its indolent and incompetent bureaucracy, and sleazy politicians. The intellectual lethargy and the rigidity of its elite further assures

continuing misery and hardship for the great number of Indians. You also fail to highlight the shoddy government services that affect all segments of society and put a drag on the economy.

India will globalise on its own terms, shedding some contradictions and generating a few more along the way and that may be a good thing, although one may wish for a much speedier pace.

Murali Reddy
Corvallis, Oregon

EDDIE IS ALIVE!

SIR – After your obituary of Eddie Clontz, he was spotted in Philadelphia a few days later (February 21st). Has anyone else reported a sighting of him?

Sam Scott
Philadelphia

SIR – How do we know that Mr Clontz is not actually living in Kalamazoo, Michigan?

Paul Formichelli
Weehawken, New Jersey

SIR – It is widely believed that Mr Clontz is still alive and well, and working for *The Economist*.

George Croy
Singapore

A mountain to climb

SIR – Eugene McManus states that “the average height above sea level of terrain throughout the world relative to the earth's radius is not statistically significant”, and argues that anyone who has attempted to climb Mount Everest would testify to the difference between practical and statistical significance (Letters, February 14th). His example is flawed.

By treating the earth's radius as a baseline, his mountaineer would have to burrow from the earth's core to the tip of Everest before making such a judgment. This would not feel significantly more difficult than burrowing from the centre of the earth to the shores of the Mediterranean. Such errors commonly contribute to misunderstandings of statistical significance and undermine the usefulness of proper statistical analyses.

Brian Hughes
Rahoon, Ireland

Follow the leader

SIR – The reported rise in anti-Semitism should come as no surprise (Charlemagne, February 21st). It has been fuelled by the recent policies of the Israeli government in the West Bank and Gaza. While attitudes to governments, countries and their peoples are different, they tend to move together.

Dislike of George Bush's policies in Iraq has promoted anti-Americanism. Jacques Chirac's position on the war in Iraq promoted fierce American hostility to all things French. Islamic suicide bombers have promoted anti-Arab and anti-Muslim sentiment. Ariel Sharon has probably done more than anyone else in recent years to promote not just anti-Israeli sentiment but also anti-Semitism. And not just in Europe, or only among Muslims.

Humphrey Taylor
Chairman
The Harris Poll
New York

Where did our love go?

SIR – Helen Fisher is correct that there are three types of romantic attachment—long term to a spouse, romantic love and sexual love ("I get a kick out of you", February 14th). Then why should it automatically follow that because these desires frequently do not focus on the same person that this leads to "dangerous results"? Are we, as humans, flawed? Or is it that we are desperately trying to shoehorn our romantic and sexual selves into a model of marriage and fidelity that has outlived its purpose?

The old model—'til death do us part, or until we kill each other—has lead to a divorce rate of 50% in the United States and staggering misery. A new model is needed but whatever comes about, please, no "paradise engineering". That is a wonderful title for a science-fiction movie; as a component of human society—never.

C.S. Pierce
Boulder, Colorado

SIR –

> Scientists have proven
> A fact I find distracting.
> When we fall in love
> It's just chemicals reacting.
> I console myself however
> At their lack of sensitivity,
> In the knowledge that their thinking's
> Just electrical activity.

David Walters
Berkhamsted, Hertfordshire

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Haiti after Aristide

Will America finish the job, this time?

Mar 4th 2004 | PORT-AU-PRINCE
From The Economist print edition

Getty

With Aristide gone, the Americans now have to face Haiti's triumphant rebels

Get article background

“NOW we're partying. Then we'll go back to work,” declared a democratic opposition leader as Jean-Bertrand Aristide flew off to the Central African Republic on February 29th at the start of his uncertain exile. The party did not last long: rebel action forced Haitians to face up to a future rosy with promises but little else.

When the Americans last intervened in Haiti, to put Mr Aristide back into the presidency in 1994, they had had the three years since his overthrow in which to construct a blueprint. In the event, the blueprint was more or less consigned, by events on the ground and by America's early withdrawal, to the dustbin. This time, policy is having to be invented, on the run.

The intent, at least, is good. James Foley, America's ambassador, promised Haitians that the international community would “fill the void” and that, this time, outsiders would not “walk away from Haiti before the job was completed.” He added, even more unconvincingly, that “the whole world is united to help Haiti.”

It seems sadly unlikely, with the extra twist that the world is led by a government bogged down in Iraq, with a beady eye on November's election, and divided over Haiti. As with Iraq, America's Defence Department and State Department do not always agree. On March 2nd Defence officials said that the 1,500-2,000 marines in their 90-day stay in Haiti would of course try to restore order, but would not, they stressed, act as the new cop on the beat.

For a few hours after Mr Aristide's departure, the transfer of power appeared to go smoothly under American and French tutelage. A new president, Boniface Alexandre, the respected head of the Supreme Court, was named. Mr Aristide's fiercely loyal prime minister, Yvon Neptune, agreed to stay on to help the process along. A policy for national reconciliation, based on the “action plan” brokered by the Caribbean Community (Caricom) and agreed to last month by Mr Aristide, involved the setting up of a commission which would select a council of notables—seven “wise men”—which, in its turn, would select a new prime minister.

But early on March 1st, before people could really take in what was happening, the National Resistance

Front for the Liberation of Haiti, the rebel army occupying the north of the country and led by Guy Philippe (seen receiving tribute in the picture above), came rolling into the capital, Port-au-Prince. At the airport, a rebel caravan of pick-ups and SUVs swept past Colonel Dave Berger, the marine commander.

The colonel had been on the ground only a few hours, with his first contingent of 150 marines. As soon as they had secured the perimeter of the airport, he said, they would begin moving into the city “to secure key government installations”. But, following the Defence Department line, he stressed that he had no instructions for dealing with the rebels. “That's a Haitian problem,” he said. “We are not a police force.” Looting continued under the Americans' eyes, as did the rebels' progress.

Squeezing him out

For days before Mr Aristide's departure, American officials had been saying privately that there was no way the capital would be allowed to fall into rebel hands. Indeed, for a crucial 48 hours, the rebels had heeded America's appeal to stay put in Cap-Haïtien, allowing America and France time to put the squeeze on Mr Aristide. But, from the first rebel uprising on February 5th in Gonaïves, America had misread the determination and firepower of the rag-tag rebel army, headed by Mr Philippe, a one-time police chief.

Mr Aristide's exit was cleverly, if cynically, finessed. Although some critics are alleging that he was kidnapped by the Americans, and thrown on a plane, his removal was more like slow death by strangulation. Despite the pressure from American hawks to dispatch him post haste, Colin Powell, the secretary of state was concerned to avoid direct American complicity in a coup. He also had to take into account the Caribbean leaders who were calling for swift international military intervention to protect Mr Aristide and Haiti's democratic order.

American officials were reasonably confident that Mr Aristide could be outmanoevred. And, indeed, he was, in the end, the author of his own downfall. Last week, his dreaded enforcers, the street gangs of angry young men and boys known as *chimères*, began a campaign of terror in the streets of the capital. By the middle of the week, bodies of opposition activists were lying about, some killed by “execution”. Opposition businesses and radio stations were targeted for attacks.

But Mr Aristide's doom was sealed on February 27th when the *chimères* began intimidating repatriated boat people. If there was anything the Bush administration was not going to stand it was an interruption, especially in the months before the election, of its policy of sending home intercepted Haitian boat people.

That afternoon the American embassy demanded that the *chimères* be got off the streets. Mr Aristide appeared on television, telling his supporters to go home. Next morning all was still, seemingly providing damning proof that the *chimères* took their orders from Mr Aristide, and that he, in effect, was their commander.

At the weekend, Luis Moreno, the number two at the American embassy and a veteran Haiti hand, visited the president to tell him that the rebels were massing to attack the capital, and that America would not intervene to save him. If he valued his life, and those of his fellow citizens, it was time to go. In the early hours of February 29th Mr Aristide left his palace with Mr Moreno, handing him a short resignation letter, that declared his wish to avoid a bloodbath.

There has not been a bloodbath: fewer than 100 people have been killed since the start of the violence. But Mr Aristide's summary departure fuelled rumours of foul play, with many Haitians remaining sceptical of the official version of events.

Bad public relations. But perhaps America's bigger mistake was to allow Mr Aristide's untrammelled rule to last as long as it did. This has left a country that is wretchedly poor, riddled with corruption and awash in drugs. A sign of how out of touch Mr Aristide, a former priest, had become with the poor is the $350,000 in rotting, unusable $100 bills that looters found in a secret chamber under his house.

Haiti has long been a drugs transhipment point for Colombian cocaine traffickers. By the mid-1990s, the

drugs trade was out of control, capitalising on Haiti's internal squabbles and the greed of the country's police chiefs, especially those who, like Mr Philippe, served in the port city of Cap-Haïtien. But drugs also infected the ruling Lavalas Family party, corrupting it to the core. The suspension of international financial aid starved Mr Aristide's government of cash, driving it ever further into the arms of the drug dealers.

As the international force builds its presence in Haiti to the proposed total of around 5,000, Mr Philippe's days could be numbered. On March 3rd, the marines began to patrol in the capital, and Mr Neptune declared a state of emergency. Mr Philippe said he would disarm his men. American officials make no secret of their distaste for his past record; they say he has no role to play in a future government. Their preferred candidate for prime minister is retired-General Herard Abraham, one of Haiti's few genuine military heroes, who has been living quietly in Miami. As commander of the armed forces, General Abraham helped end military rule in 1990, and played a major role in organising the country's 1990 democratic elections, which Mr Aristide won by a landslide.

Mr Philippe denies harbouring political ambitions. But he is calling for the army, disbanded in 1994, to be reinstated and has proclaimed himself to be Haiti's military chief. He claims that 90% of the (crumbling and corrupt) police force is behind him. The struggle for power in post-Aristide Haiti is just beginning.

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Franco-American relations

Happiness is doing things together

Mar 4th 2004 | PARIS
From The Economist print edition

France feels it has pulled off a triumph

“PERFECT Franco-American co-ordination,” chirped Dominique de Villepin, France's foreign minister, as his country's soldiers dropped into Haiti this week alongside American marines. It was a phrase that the French have not come close to uttering for over a year, since their differences with America over how to disarm Iraq burst open. Now, there is a sense of relief in Paris, not so much at the idea that the Americans have welcomed them back from the cold as at the thought that their way of doing things has prevailed—and in America's own backyard.

Ever since Jacques Chirac threatened to veto a second UN resolution on Iraq, and George Bush was urged by his national security adviser to “punish France” for its truculence, relations between the two countries have modulated between cool and glacial. In public, the French have been snubbed.

France's president has yet to hear whether Mr Bush will accept an invitation this summer to the 60th anniversary celebrations of the D-day landings in Normandy. In more concrete terms, the French have often found their voice ignored. When Mr de Villepin recently outlined a grand Middle East peace plan, for example, nobody noticed.

How pleasing for the French, therefore, that the Americans not only listened to but acted on Mr de Villepin's peace plan for Haiti. The French foreign minister had pressed for intervention, in the face of initial American scepticism. And how unprickly of the French to accept an American commander for their troops, albeit alongside many more American ones, on the island (but reporters noted that the first French units, unlike the American ones, had to hire a battered school bus to take them from the airport to the city). Moreover, the rush to secure UN approval for the military intervention handed the French exactly the sort of multilateral operation that they claim is their preferred model. Could this be the beginning of a more lasting rapprochement? It is not the only sign of change. A recent delegation of American congressmen, on a trip to mend relations, was received royally in Paris. And Mr Chirac has tried to stop going on about “multi-polarity”, an attempt to counter American power that irks the Bush camp.

Yet mutual suspicion remains. Last week, to French anger, the Americans slapped a trade ban on French foie gras. When mistrust lingers, it is hard for the French not to detect political retaliation.

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America's debate on Haiti

Did he go or was he pushed?

Mar 4th 2004 | WASHINGTON, DC
From The Economist print edition

Haiti is now a punch-ball in America's election campaign.

Get article background

“I WAS forced to leave. They came at night. There were too many...white American, white military.” With those words, spoken over a crackly telephone from the Central African Republic, Jean-Bertrand Aristide, Haiti's ex-president, poured fuel on the dispute inside the United States about the Bush administration's role in the collapse of the Haitian regime.

More, almost, than any other country, Haiti depends on America. Among other acts of intervention (see article), the United States installed Mr Aristide as president in 1994, by sending troops to defeat a coup against him. The poorest country in the western hemisphere, Haiti has long relied on American aid. The administration could hardly avoid getting entangled in the president's ouster. But the bitterness caused by this entanglement was striking.

Maxine Waters, a Democratic congresswoman from California said the exiled president had told her he had been kidnapped. Another member of the Congressional Black Caucus, Charles Rangel, accused the administration of siding with “the coup people”. Both demanded a congressional investigation.

“Absolutely baseless, absurd,” replied Colin Powell, the secretary of state. The administration said Mr Aristide had volunteered to fly to safety. America's protection, one official claimed, not only saved his and his wife's lives, but prevented the capital, Port-au-Prince, from descending into an uncontrollable cycle of violence.

The administration insists that its decisions were right, not least because American troops might not have saved Mr Aristide anyway: it had tried to arrange a peace deal but the armed opposition had grown too strong for compromise. The French government also called upon Mr Aristide to step down for that reason.

Even more important, say American officials, it would have been wrong to have saved him. Mr Aristide, they argue, was deeply flawed. He had rigged elections in 2000. He condoned corruption and drug-running in Haiti (all of which the ex-president denies). He was turning to armed thugs to defend his regime. To have saved such a man, administration officials argue, would just have destabilised Haiti further. As it is, his resignation paves the way for a constitutional transfer of power and new elections.

Democrats do not quite contradict that. They concede Mr Aristide brought many of his troubles on himself. But they also blame George Bush. At a debate in New York on February 29th, John Kerry argued that the administration had in practice made a peaceful settlement impossible by giving the opposition a power of veto over its terms. The deal worked out by America, France, Canada and Caribbean countries had been accepted by Mr Aristide, but was rejected by the opposition. Without American pressure on the president's armed opponents, says Mr Kerry, the peace plan was bound to fail.

John Edwards, until this week Mr Kerry's chief rival in the Democrats' primary campaign, blamed the administration for a different reason. He argued it helped create conditions for chaos by ignoring or isolating Haiti. It continued a ban on direct aid begun by the Clinton administration. It held up $500m of loans by the World Bank and Inter-American Development Bank. It permitted peace negotiations under the auspices of the Organisation of American States, but put no diplomatic weight behind them. As Daniel Erikson of the Inter-American Dialogue, a think-tank in Washington, puts it, the administration neither led, or followed, nor got out of the way.

The lessons of Mr Aristide's fall, and the debate about it in America, are depressing. Partisan

differences—the debate, for instance, over whether Haiti's prime need was democracy or aid—have paralysed consistent policymaking. The result has been that Haiti got neither.

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Haiti's history

If at first...

Mar 4th 2004
From The Economist print edition

First time tragedy, second time tragedy

Get article background

WHEN, having rebuffed the British, French and Spanish armies, Haiti's freed slaves wrote their act of independence in 1804, their leader's secretary vowed to use “a white man's skull for an inkwell, his skin for parchment, blood for ink”. But the white men of Europe, and of America, have shaped Haiti's history from the arrival of Columbus to the exile of Jean-Bertrand Aristide.

First there were reparations, embargoes and intrigues. Then in 1915, the white man—in the shape of American troops, who arrived as a butchered president was dragged through the streets—recolonised the country. Though ostensibly humanitarian, their mission's main motives were America's fear of German expansionism, and the protection of American property and interests.

The occupiers improved the infrastructure and tackled tropical disease. But their use of forced labour led to a revolt in which several thousand Haitians died. For all their talk about respecting Haitian sovereignty, the Americans imposed a constitution, installed pliant presidents and dissolved non-pliant legislatures. Their racism didn't help: the secretary of state of 1915 considered “the African race” to be “devoid of any capacity for political organisation”, with “an inherent tendency to revert to savagery”.

The Americans left in 1934; 12 years later there was another revolution—evidence of failure or of success, depending on your point of view. But the United States continued to meddle, propping up the lengthy dictatorship of the Duvalier family as a bulwark against Cuban communism; then enabling the exile of “Baby Doc” Duvalier in 1986.

With Haitian refugees washing up in Florida, American interest persisted after the threats of German imperialism and communism receded. In contrast to the welcome afforded Cubans, George Bush senior, like his son, ordered his coastguard to turn back the boat people who fled Haiti after the coup that dislodged Mr Aristide in 1991 (in which the CIA is thought to have been involved).

Then, in 1994, Bill Clinton sent in his forces to return Mr Aristide to power; they mostly left within two years. Perhaps their successors will heed the findings of a presidential commission of 1930. It criticised the Americans' “brusque attempt to plant democracy [in Haiti] by drill and harrow”, and their failure to train up Haitians for government or understand their problems.

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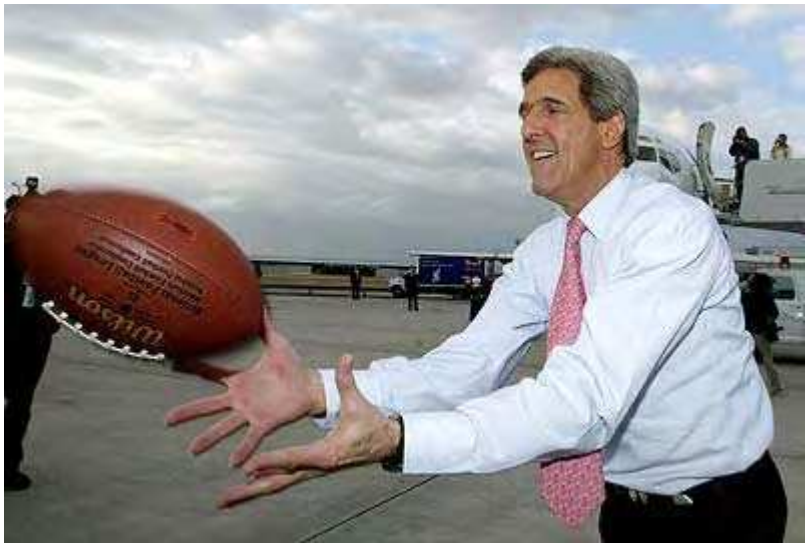
The Super Tuesday primaries

John Kerry grabs the prize

Mar 4th 2004 | WASHINGTON, DC
From The Economist print edition

AFP



And George Bush launches his onslaught

THE front-running favourite, the candidate with the long, long history and plenty of battle experience, won everything in sight. His chief rival was left with just a consolation prize for a story of poignant loss after a noble struggle against the odds.

But enough about “Lord of the Rings”, “Cold Mountain” and the Oscars. John Kerry woke up on March 3rd, with the Democratic presidential nomination secure, to face the first barrage of television advertisements bought on behalf of George Bush's re-election campaign. This week marks the start of the presidential contest. At eight months, it will be the longest in American history.

The Democrats start the campaign in much better shape than anyone could have expected at the start of the year. Mr Kerry won decisively among self-identified Democrats and liberals in all the primary states voting in Super Tuesday except Vermont—but including Georgia, where his retiring rival, John Edwards, did well, and might have pipped him.

Mr Kerry won big majorities among blacks, Latinos, union members and every part of the Democratic base. Even those who supported Mr Edwards said they would be content if Mr Kerry won the nomination. In other words, even his rivals' supporters are rallying round Mr Kerry. As the campaign joke goes, George Bush ran as a uniter not a divider, and succeeded: he united the Democrats.

Despite some appearances, the campaign has not really pulled Mr Kerry to the left. He did not morph into a protectionist. He did not demagogue (much) on taxes. His foreign policy is a solid, mainstream affair (see article). Because the candidates fell over themselves to be nice to each other in debates, there are neither ideological rifts to heal nor exaggerated taunts to forget. Mr Bush will doubtless seek to paint Mr Kerry as a “Massachusetts liberal”. But that liberalism exists more in Mr Kerry's voting record in the Senate than in his policies or views as expressed in the campaign.

The Democrats are also in better shape than expected because their primary contest coincided with, and took advantage of, a period of unusual weakness for Mr Bush. There is a raft of opinion-poll evidence that the political landscape has been shifting against the president since around the time his chief weapons-hunter admitted there were no weapons of mass destruction in Iraq.

His approval rating has plummetted and many disapprove of him strongly. More voters say the country is on the wrong track than the right one; more than half want the country to change course. In polling on a generic congressional ballot, Democrats lead Republicans by between three and seven points. Democrats have begun to open up a significant lead in party registration, reversing a long decline.

Republican strategists dismiss all this by saying incumbents often lag behind challengers for long periods in the campaign. Maybe, but according to Gallup, every incumbent since Truman has been ahead of his eventual challenger at this point in the cycle—all except Gerald Ford, who lost.

There are even signs the Republican base has been fraying a bit. Fiscal conservatives are incensed about the budget deficit. Immigration reform is a red rag in some red states. On gay marriage, Mr Bush has sought to shore up support among evangelical Christians, but at the risk of alienating moderate and libertarian voters.

But if all this gives Mr Kerry cause for satisfaction, he has no reason for complacency. There is at least one bit of bad news in the opinion-poll evidence and primary results. Mr Bush is slightly more unpopular with independent voters than with voters as a whole. But Mr Kerry proved worse than Mr Edwards at attracting independents. In Ohio and Georgia, Mr Edwards won more independents and Republicans than Mr Kerry, even though he lost both states.

Moreover, the past month has been an unusual period for another reason: Democrats have been slamming Mr Bush and he has hardly begun to hit back in any consistent way. That is about to change. His first television advertisements began this week —$4.5m worth in 17 states. With well over $100m in his campaign chest, the advertising offensive against Mr Kerry is likely to be long and loud. The senator has proved he can rally Democrats. Now he has to show he can punch back against Republicans, and win independents.

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About sponsorship

John Kerry's foreign policy

On the one hand (and the other)

Mar 4th 2004 | LOS ANGELES
From The Economist print edition

A view of the world both assertive and diplomatic

"I PLEDGE to you, on your behalf and on behalf of the other 96% of humanity, that within weeks of being elected I will return to the United Nations, and not only rejoin the community of nations but also turn over a proud new chapter in America's relationship with the world." That typically tortuous peroration from John Kerry's stump speech concerns one of his most important themes: foreign policy. If Mr Kerry carries it out, this "new chapter" would mark a fundamental break with the Bush administration.

Mr Kerry promises to restart negotiations on the Kyoto anti-global-warming treaty, open bilateral talks with North Korea and Iran, appoint envoys to the Middle East and for nuclear proliferation, aid failed states, stop bunker-buster bombs—and even give all Americans a chance to learn a foreign language. And that does not include profound differences with Mr Bush over Iraq. Europeans may think this orgy of multilateralism almost too good to be true. They could be right.

The starting-point of Mr Kerry's new foreign policy is his claim that, by neglecting the rest of the world, the Bush administration has undermined America's security. Because so many countries refused to take part in the operation in Iraq, he says, American soldiers are less safe than they would otherwise be. Diplomatic indifference has let problems in the Middle East and North Korea fester unnecessarily. He accuses the administration of creating terrorists where they had not existed.

Poignantly, Mr Kerry reminds his audiences that he is the son of a foreign-service officer. But he is not much interested in diplomacy for its own sake, or in notions of shared sovereignty. "I will never hand over the security of this country to any institution," he shouts on the hustings. Last year, at Georgetown University, he insisted: "We [cannot] let our national-security agenda be defined by those who reflexively oppose any US military intervention anywhere [or]...see US power as mostly a malignant force in world politics."

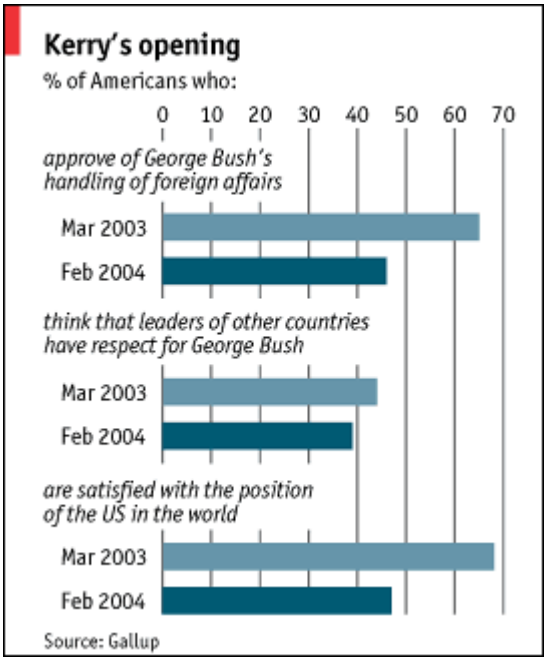
In trying to strike a balance between multilateralism on the one hand and continued assertiveness on the other, Mr Kerry is returning to the hard-headed "progressive internationalism" of Roosevelt and Truman, which dominated American foreign policy throughout the cold war. This is not the peacenik wing of the Democratic Party. His advisers include Richard Holbrooke, the man who ran President Clinton's Bosnia policy, and Sandy Berger, a former national security adviser. His chief foreign-policy adviser, Rand Beers, was once in the Bush team.

The attempt to repeat the cold-war balancing act in a world of global terrorism is ambitious, and can be confusing. Sometimes Mr Kerry's diplomacy seems naïve. At other times, he seems more assertive even than Mr Bush.

For example, he wants the UN to share more of the work in Iraq. But the UN has pulled most of its workers out, and would depend on American troops for security. Mr Kerry wants international aid for failed states to help them fight terrorism. But a failed state cannot absorb such aid.

Most of all, in dealing with America's allies, Mr Kerry may be underestimating hard differences of interest. He seems to think he can make up with, say, France and Germany where Mr Clinton left off. Yet France's opposition to the Iraq war reflected strategic calculation as well as a difference of opinion over a particular episode. As Walter Russell Mead of the Council on Foreign Relations asks, what if John Kerry kisses the frog and it does not turn into a prince?

Moreover, there are areas where Mr Kerry goes further than Mr Bush in projecting American power. These suggest that a Kerry presidency would not be quite the radical break that Europeans hope for. He wants to increase the size of the army by 40,000 men, half for peacekeeping and civil-affairs work but half for real combat. He says he will convene an anti-terrorism summit, which sounds very *communautaire* but is actually a way of pushing Europeans and Arabs to increase their efforts in the war against terror.



Inevitably, his attempts to balance mild diplomacy with Bush-like assertiveness lead to inconsistencies. Take North Korea. Mr Kerry dismisses the six-country talks about North Korea's nuclear plans in favour of a face-to-face discussion with America. That is curious, given that this is one of the few cases where Mr Bush has volunteered to act multilaterally, and that North Korea's Kim Jong-Il has all along been demanding bilateral talks.

The prime example of inconsistency, though, is Iraq. Mr Kerry reasonably criticises the administration for failing to plan properly for the post-war occupation and handover. He says a Kerry administration would stay the course (unlike Mr Bush, who, he claims, is planning to cut and run). Yet it is hard to square all this with Mr Kerry's own vote against the administration's $87-billion request for reconstruction aid, or with his applause-seeking claim that “we shouldn't be opening fire stations in Baghdad while closing them in America.” The charge of seeking to have it both ways on Iraq may be the most damaging levelled against his foreign policy.

All that said, Mr Kerry is offering a serious and detailed alternative. He attracted seasoned foreign-policy types well before winning the nomination. His liking for the instruments of soft power seems to fit well with waging a war of ideas against anti-Americanism and radical Islamism.

Whether or not Mr Kerry would actually reverse American foreign policy, he represents a profoundly different approach from Mr Bush's. The president seems animated by a sense of America's rightness. The country can make mistakes of policy, of course, but cannot be fundamentally misguided because it is a force for good in the world. Mr Kerry, the Vietnam vet, appears to worry about an America out of control. America, he seems to say, would benefit by imposing discipline both on itself and on its power in the world—which means seeking legitimacy through the support of like-minded nations.

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The way he talks

To put it unsimply

Mar 4th 2004 | BUFFALO, NEW YORK
From The Economist print edition

Kerry can sound tangled, but it shows he's thought a lot

A LOT can be learned about candidates from their speeches on the hustings: not what they say, but how they say it. John Forbes Kerry has a weakness for expressing simple ideas in weirdly complicated ways. Consider this favourite line: “We need to go to the moon right here on earth by putting in place the principle that no American in uniform should ever be held hostage to America's dependence on foreign oil.” Go to the moon on earth? He is urging a policy of energy conservation and comparing it to another JFK's space programme. The line always gets a big hand, but it's a bit of a stretch all the same.

Mr Kerry has a curious tolerance of multiple negatives. “We need to realise”, he says, “that the United States should not be the only industrialised country on the face of the earth not to understand that health care is not a privilege for the rich and the powerful but a right for all Americans.” Compare that to John Edwards making the same point: “America has two health-care systems, one for the rich, one for the poor. That's wrong.”

Mr Kerry's visits to the Circumlocution Office are rooted in a reluctance to oversimplify. For a decision-maker, this is a good thing. For a candidate, it is a mixed blessing. Asked about what he would do to create jobs, Mr Kerry spends ten minutes describing half a dozen policies before giving an answer that takes in the economy as a whole. In fast-paced debates, he can run out of time before he finishes his preamble.

In a word, his approach is additive. He likes to list lots of arguments, the more the merrier. This is the opposite of George Bush. The president tends to strip each issue down to its essence and argues a case in stark, absolutist terms, as a matter of right and wrong.

Each approach has virtue. By producing a lot of different evidence, Mr Kerry implies that he has thought widely about an issue. By ignoring a lot of evidence and going back to first principles, Mr Bush suggests that his views are rooted in core beliefs. In their patterns of thought, as well as in their policies, the two men offer clear alternatives.

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The electoral week

Primary colour

Mar 4th 2004
From The Economist print edition

Hollywood wisdom

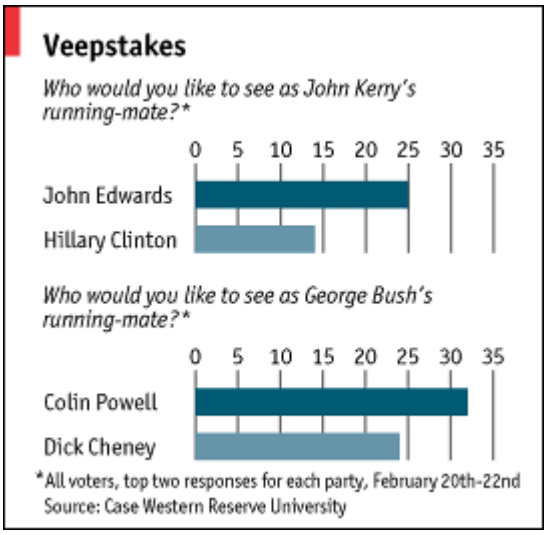
“We all love John and Teresa, but if he hasn't had Botox then nobody here has either.”

Kerry fundraiser surveying the Vanity Fair *Oscar party, February 29th*

Accessorising

“Florida is so passé. This year's must-have state is Ohio.”

Associated Press, February 26th



The numerology candidate

“And it occurred to me this afternoon...I am running to be the 44th president of the United States and I was on the 44 boat. I think that's a pretty good sign. And the other boat I was on was the 94 boat, and that has a 4 in it, and I'm running in November 04 and that's a pretty good sign.”

John Kerry in New York, February 29th, “ABC News, The Note”

Reality bites

“At some point, I've got to start getting more delegates or I'm not going to be the nominee.”

John Edwards in Ohio, March 1st

Threat or promise

“I'm thinking about you.”

President Bush calls to congratulate John Kerry, USA Today, *March 3rd*

The campaign that wouldn't die (1)

“It's about that Cleveland optimism. I was born with it.”

Dennis Kucinich explains why he keeps running. Plain Dealer, *March 2nd*

The campaign that wouldn't die (2)

“Our endorsement [of Howard Dean] is a gesture of the gratitude for what he has done in the Democratic campaign and a vote of confidence in the message he brings to the nation now and in the future.”

The Barre-Montpelier Times Argus*, endorsing Howard Dean on February 28th. Mr Dean won the Vermont primary with 58% of the vote, despite having dropped out of the race two weeks earlier*

The campaign that wouldn't die (3)

“I'm not going to sit here and be window dressing.”

Al Sharpton gets snippy during the debate in New York, February 29th

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John Edwards bows out

Where to now?

Mar 4th 2004 | WASHINGTON, DC
From The Economist print edition

A charismatic candidate in search of an audience

AP

Dear Lord, please make John Kerry like me

HISTORIANS will no doubt look back on Super Tuesday, 2004, as the culmination of an inevitable process. John Kerry possesses the perfect credentials for an age of terror—a heroic war record in Vietnam and 19 long years on the Senate Foreign Relations Committee—as well as the necessary gravitas for the Oval Office. John Edwards is a mere callow youth by comparison. No wonder the Democratic machine lined up behind the man from Massachusetts.

The truth is more muddled. Mr Edwards may not have been able to match Mr Kerry's gilt-edged CV. But he was a much more charismatic campaigner: a man who touched those who saw him speak and appealed particularly strongly to independent voters. Mr Edwards put on an impressive surge in the last week of the Iowa caucuses, winning over many hitherto undecided voters. If that surge had started a little earlier, he might have indeed beaten Mr Kerry in Iowa; and if he had beaten Mr Kerry in Iowa, the number-one and number-two positions might have been reversed in later states as well.

All of which raises an intriguing question: did the Democrats choose a good candidate—which Mr Kerry clearly is—over a better one? The relative performance of Bob Dole and Bill Clinton in 1996 suggest that CVs are less important than charisma in politics. Mr Dole was both a war hero and a senatorial power house; Mr Clinton was a well-known rogue who had already been hung out to dry in the mid-term elections. But Mr Clinton had an extraordinary ability to connect with ordinary voters. Perhaps September 11th has put such a huge premium on experience, both political and military, that none of this matters. But it is still possible that the Democrats have made the mistake of choosing the equivalent of a George Bush senior or a Bob Dole—a walking CV who is pretty poor at empathising with people.

Despite losing, Mr Edwards has had a marked impact on this year's primary season, for both good and ill. His populist spiel about “two nations” helped to put the spotlight on poverty, a subject that Mr Clinton's New Democrats pushed to the periphery of Democratic politics. It also helped draw attention to the way that insiders of all sorts manipulate the political system for their own benefit. On the negative side, Mr Edwards also helped to fan the flames of protectionism that are burning far too brightly in the Democratic Party. More generally, his presence undoubtedly helped to make Mr Kerry a better performer. Mr Kerry's speeches now incorporate some of Mr Edwards's two-nations rhetoric, and a little less of his own longwindness.

Where does Mr Edwards go from here? Many Democrats are convinced that he is a shoo-in for the vice-presidency: a working-class southern boy made good who balances Mr Kerry's patrician gravitas with a generous measure of charm. They may well be in for a surprise. The two Johns have never been particularly close, either in the Senate or socially, despite living a mere block apart in Georgetown. And Mr Edwards does not bring a state to the table in the way that several other potential nominees do; it would require a landslide to shift either North or South Carolina into the Republican column in a presidential election.

Mr Kerry may well decide that the sheer logic of the Electoral College obliges him to choose somebody from a battleground state. Bill Nelson or Bob Graham would improve his chances in Florida; Evan Bayh, a

senator from Indiana, would strengthen his hopes in the industrial mid-west, particularly in Ohio; Dick Gephardt would improve his chances in Missouri, while consolidating his support with big labour; Max Cleland, a cruelly disabled Vietnam veteran, might make Mr Kerry competitive in Georgia. Mr Edwards may well find that the length of a Georgetown block can be a remarkably long way.

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The California ballot

Arnie's way

Mar 4th 2004 | LOS ANGELES
From The Economist print edition

How to get voters to do exactly what you want

THE governor's trade-mark grin could hardly have been wider: “I love it when the people go to the polls and flex their muscles and let their voices be heard!” Indeed so. Arnold Schwarzenegger had bet his political capital on the outcome of Super Tuesday—not the predictable victory of John Kerry in California's primary, but the voting on the accompanying ballot initiatives, in particular on Propositions 57 and 58. The first of these would allow California to escape impending insolvency by issuing a $15 billion bond; the second would require lawmakers to balance the budget each year and set up a “rainy-day” reserve. Both would have to pass for either to be implemented.

On March 2nd, the governor won his wager by a handsome margin. “California”, declared the exultant Mr Schwarzenegger in a victory rally in Santa Monica, “is back on track.”

That may not be strictly true. The $15 billion bond will buy the now-tarnished Golden State a breathing space (some $14 billion in past borrowing falls due in June) by allowing it to refinance its deficits of the past three years, but the state will still have to close a “structural” gap between spending and revenues which could amount to $4 billion in the 2004-2005 fiscal year.

What is certainly true is that Mr Schwarzenegger remains on track. One explanation is the $8.5m advertising blitz, complete with 14m mail shots and 500,000 phone calls to what the governor's aides call “priority demographics”—that is, likely Democratic voters who needed to be swayed on 57 and 58. A second explanation is that Mr Schwarzenegger won the support from the beginning of the state's Democratic chief financial officer, Steve Westly, and later that of Dianne Feinstein, the senior Democratic senator for California.

The best explanation, however, is that the governor combines film-star charisma with a political savvy that has come remarkably quickly for a supposed political *ingénu*. It was, for example, no accident that on election eve Mr Schwarzenegger was on the widely-watched “Tonight Show” with Jay Leno—and surely no accident that on the same show, to the delight of many Democrats, he said he would have no problem if Californians voted for gay marriage. By implication, therefore, his criticism two weeks earlier of San Franciso's mayor, Gavin Newsom, for allowing thousands of gays to marry was based on legal rather than moral objections.

Are the governor's bipartisan overtures and “Republican-lite” views beginning to annoy his fellow Republicans? Presumably President George Bush, who visited Los Angeles on March 3rd and who has called for a constitutional amendment to ban gay marriage, is less than happy. Similarly, the Proposition 57 victory can hardly delight hard-line Republicans who favour less spending rather than more borrowing. Tom McClintock, a state senator who ran against Mr Schwarzenegger for the governorship, says sourly: “We're about to find out if the laws of mathematics have been changed and we can now actually borrow our way out of debt.”

The reality, however, is that for the moment there is no political mileage in being out of step with the hugely popular governor. Not only did Propositions 57 and 58 pass, but so did Proposition 55, a Schwarzenegger-endorsed initiative to issue $12.3 billion in bonds for the state's schools and colleges. Meanwhile, Proposition 56, a Schwarzenegger-opposed initiative to reduce to 55% from two-thirds the majority in the legislature needed to pass a budget, was easily defeated (voters clearly like the implicit veto on tax increases wielded in the legislature by the Republican minority). Bill Jones, who was backed by Mr Schwarzenegger and emerged an easy victor on March 2nd in the Republican contest to select an opponent to run against Senator Barbara Boxer in November, neatly sums up the Schwarzenegger effect: “His coattails are going to be very important for the president and myself.”

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The Catholic bishops

Found wanting

Mar 4th 2004 | NEW YORK
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Two studies show the true extent of the paedophilia scandal

AT THE height of the sexual-abuse scandal in 2002, America's Roman Catholic bishops promised to set up a panel of laymen to investigate. Last week that panel, the National Review Board, released two studies that administered a stinging slap to the leaders of the church.

The first tries to explain the causes, context and repercussions of the scandal. The failure, it says, was not just on the part of the priests who sexually abused children, “but also on the part of those bishops and other church leaders who did not act effectively to preclude that abuse in the first instance or respond appropriately when it occurred.” In fact, the bishops often made things worse.

The second report, compiled with help from the John Jay College of Criminal Justice, found that from 1950 to 2002 almost 11,000 claims of abuse were brought against nearly 4,400 priests. Only 615 cases were investigated by the police and only 100 priests were imprisoned. Using data provided by all but two of the nation's 195 dioceses, the study disclosed that at least $572m has been spent on legal settlements and counselling.

Most agree, however, that the actual cost to the American church is far higher. Victims' groups say that the figures are suspect, coming as they do from the bishops, and even the study's backers concede that the numbers, both of victims and of costs, are underreported. However, they are much higher than any disclosed before now. And they have set a trend. A hundred bishops released their diocese data on the day the two reports were made public. The Conference of Catholic Bishops also announced that it has removed 700 priests over the past two years.

But the church still has a long way to go to restore trust. Not least, the Vatican still fails to understand. Just last week, it released its own report recommending that the zero-tolerance policy recently endorsed by America's Catholic bishops should be reconsidered. Only one bishop has been forced to step down. Some accused priests have even been reinstated in active ministry on the Vatican's orders.

But James Post, head of Voice of the Faithful, a lay group formed in the wake of the scandals, thinks more laity involvement and oversight could work wonders. That is how things get done. Without public outrage, after all, the National Review Board would never have been created.

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This sporting life

The ball gets it

Mar 4th 2004
From The Economist print edition

Lifting the curse on the Chicago Cubs

AP

SPORT and superstition have always gone hand-in-hand, but probably nowhere more than in Chicago. In 1945 the Chicago Cubs baseball team banned William Sianis, owner of the local Billy Goat Tavern, from bringing his beloved goat into the Cubs' home stadium, Wrigley Field. Mr Sianis swore that the Cubs would never again win the National League championship, and the “curse of the goat” has haunted them ever since.

Last October, it looked as if the curse would at last be broken. The Cubs had a seemingly unassailable lead in the play-offs for the National League title against the Florida Marlins. But then a home fan, Steve Bartman, unwittingly deflected a vital catch out of the hand of a Cubs outfielder, Moises Alou. The Marlins rallied, winning not only the game but the league and, eventually, the World Series.

Had the curse struck again? While Mr Bartman hid from furious fans, Grant DePorter, a local restaurateur, paid $113,000 for the infamous “foul ball”, vowing to destroy it and with it, he hoped, the Cubs' bad luck.

During its final days the condemned ball was guarded by a team of 13 security men. It was given a massage and a final meal of steak, lobster and a beer. An Oscar-winning special effects expert, Michael Lantieri, was drafted in as executioner to make the sure that ball went out with a bang. And on the night of February 26th, when a final reprieve failed to arrive from the governor, an explosive charge reduced the ball to a useless pile of string. Its demise was shown live on national television.

Whether or not the curse is lifted (wait for next season), the ball did not die in vain. Mr DePorter hopes to raise $2m for diabetes research from the sale of mementoes of its execution.

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Lexington

A question of identity

Mar 4th 2004
From The Economist print edition

Despite new arguments to the contrary, the relentless Latino influx is still good for America

Get article background

IN 1993 Samuel Huntington caused consternation by arguing that globalisation would produce not harmonious growth, but a clash of civilisations. He was particularly criticised for talking about Islam's "bloody borders". Now the Harvard professor has decided to gore another sacred cow—the idea that mass Latino immigration is an unqualified blessing for America. For Mr Huntington the truth is the opposite. Hispanic immigration is in danger of dividing America into "two peoples, two cultures and two languages": another "clash of civilisations", in effect.

Mr Huntington's new book, "Who We Are: Challenges to American National Identity", is not out until May. But an article based on the book in *Foreign Policy* magazine (a magazine, incidentally, which Mr Huntington co-founded but which is now run by a Latino editor and a Latino managing editor) has already caused a sensation. One commentator in Miami has even called for mass protests against Mr Huntington's employer, Harvard University, and his publisher, Simon & Schuster.

This being so, it is hard to resist the temptation to pile in on Mr Huntington's side. He surely deserves to be commended for his intellectual bravery. Business people don't want to discuss the downside of immigration because they regard immigrants as a wonderful source of cheap labour. And Democratic activists don't want to discuss the downside because they regard Latinos as a wonderful source of Democratic votes.

Mr Huntington also has some serious points on his side. America may be a land of immigrants, but the current wave of Latino immigration is unlike anything that has gone before in at least two respects. One is the proximity of the immigrants to their homelands. The millions of Europeans who crossed the Atlantic before the first world war purchased one-way tickets. Today's Latino immigrants are forever hopping back over the border to visit their relatives, or even to vote. The sheer scale and relentlessness of their immigration is new, too. In 1998 "José" replaced "Michael" as the most popular name for newborn boys in both California and Texas.

So the current wave of Latino immigration clearly poses peculiar problems. But are these problems enough to justify Mr Huntington's apocalyptic vision of two Americas? The biggest problem with his argument lies in his view of "assimilation". For Mr Huntington, this means adapting to America's "core

Anglo-Protestant culture", which has given America its respect for law, hard work and human rights. Assimilation has worked in the past because immigrants have been willing to adapt in this way: look at the way the Kennedys transformed themselves into Boston Brahmins. The Latinos, he thinks, are too immersed in their own cultures to make this transition.

A long time since the Mayflower

But is "assimilation" merely a matter of adapting to America's "Anglo-Protestant core"? The notion of America's core identity has surely broadened since the Puritans first colonised Massachusetts. Historically, assimilation is a two-way street: immigrant groups adapt themselves to America's mainstream, but they also redefine and enrich that mainstream by contributing something of their own.

Mr Huntington's view of Latino identity is similarly simple-minded. He ignores the fact that it is bound to change over time, just as Italian-American identity, Jewish-American identity and Irish-American identity have done. Talk to the parents of Latinos growing up in Los Angeles and Houston, and all you hear are complaints that their children are abandoning their old culture. Mr Huntington also ignores the fact that immigrants are quite capable of embracing more than one culture—of being Mexican at home and Anglo at work.

Latinos, in fact, are remarkably keen on assimilation. Mr Huntington produces anecdotes about Latinos booing the American side when the United States played Mexico at soccer in Los Angeles in 1998. But much systematic evidence points in the opposite direction. Latinos are not only making slow but steady progress in terms of home-ownership, business formation and education. They are at least as enthusiastic about American institutions as non-Latinos.

A large opinion poll co-ordinated in 2000 by the *Washington Post* found that 90% of new arrivals from Latin America believe that it is important for them to change in order to fit in with their adopted country. Only one in ten of second-generation Latinos relies mainly on speaking Spanish. Latinos do not see themselves as a monolithic ethnic group. Nor do they necessarily agree with the politics of their countrymen back home. The New America Foundation's Gregory Rodriguez points out that a significant proportion of the American troops being killed in Iraq are Latinos—and that the commander of the allied liberation forces there, Lieutenant-General Ricardo Sanchez, grew up in a Texan county that is 98% Mexican-American.

Mr Huntington is right to point out that absorbing large numbers of people from a next-door country poses unusual problems. The United States needs to heed George Bush's call to bring immigrants out of the shadow economy where millions of them now work. It needs to scrap the failed experiment with bilingual education which has left so many immigrants unable to speak English. And it needs to stop pandering to ethnic demagogues with special programmes for ethnic minorities.

But the cost of closing the borders would be far bigger than keeping them open, by starving the economy of some of its most energetic workers. Throughout its history America's great strength has been its ability to absorb new people—and the new ideas and tastes that they bring with them. There is no reason to think that this will change just because the new people come across the Rio Grande rather than across the Atlantic.

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Brazil's economy

A test of faith in Lula

Mar 4th 2004 | SÃO PAULO
From The Economist print edition

Will the economy bounce back fast enough to silence the doubters?

Get article background

MORE than most presidents, Brazil's Luiz Inácio Lula da Silva is sustained by popular faith. Brazilians assume that he will better the lot of the poor and that his Workers' Party (PT) is nobler than the corrupt norm. That faith is now being tested. A corruption scandal last month threatened to oust José Dirceu, Lula's chief-of-staff and the man sometimes called Brazil's "prime minister". Now comes another test: Brazilians learned last week that their economy shrank 0.2% in 2003, the worst performance in 11 years. Unless it bounces back fast, the president's popularity may be shaken and his policies put in jeopardy.

Lula and his economic team promised that the tight fiscal and monetary policies of their first year in office would lead to renewed growth and more jobs in the second. The pain is tangible enough: in the year to January, average wages fell 6.2% in real terms, while unemployment in the big cities rose to 11.7%, from 11.2%. Household consumption fell a record 3.3% in 2003, while interest payments on the public debt snaffled almost 10% of GDP.

So when will the gains come? Critics see the government's macroeconomic policy as perverse. Real interest rates are among the highest of any large economy, even after last year's ten-point decline in the central bank's benchmark rate. Their laments are growing more shrill, partly because the central bank has held this steady (at 16.5%) for the past two months. Antônio Delfim Netto, a congressman friendly to the government, gave warning that the bank's obsession with hitting its inflation target (of 5.5%) could condemn the economy to mediocre growth this year.

But the economy is in better shape than it looks—and that goes, too, for the government's policies. Last year's austerity choked an inflationary burp, restored investors' confidence in Brazil and should allow interest rates to fall further. In a feisty defence of his record, the central bank's governor, Henrique Meirelles, pointed out that recovery began last July, and that growth reached an annual rate of 6% in the final quarter. Most economists still expect growth of 3-4% this year, spreading out from booming exports to domestic consumption and investment. Lula seems to realise that surrender to the growing clamour for slashed interest rates and higher spending would jeopardise such gains.

But will the gains come fast enough to ease the pressure on him? He faces local elections in October. Growth this year will produce “almost nothing” by way of new jobs, says Dirceu Bezerra of Rosenberg & Associados, a consultancy. And it remains vulnerable to outside forces, such as a rise in American interest rates, which would push up rates in Brazil.

The government, put on the defensive by revelations that one of Mr Dirceu's top aides funnelled money illegally to the PT and took some for himself, has two answers. One is to prime the economy without busting the budget. Thus the finance minister, Antônio Palocci, this week announced measures to encourage banks to lend to the depressed construction industry. He is also pressing the International Monetary Fund, which last year lent Brazil $6.6 billion, to exempt some capital spending from the calculation of the main fiscal target. The IMF is considering this, but will not decide soon.

More important is a series of microeconomic initiatives designed to perk up private investment, especially in infrastructure. They include a reform of the bankruptcy law, rules to encourage private investment in public works and a new regime for electricity. But the government's approach to regulation has so far been inept. In January, it squeezed out the chief of the telecoms regulator, casting doubt on the independence of all regulatory bodies. The new electricity model, introduced by decree and now subject to ratification by Congress, leaves much to the discretion of the energy minister. All this hurts investment as much as high interest rates do.

The air of crisis in Brasília could galvanise the government. Mr Dirceu, who is not accused of wrongdoing, is apparently safe for now and the government looks likely to escape a congressional inquiry into the funding scandal. Controversial measures, such as a reform of the judiciary, may languish. But the “positive agenda” of microeconomic measures could speed up. Best of all for the government, Lula's popularity has barely been dented by scandal or the economic blues. According to a poll this week, 60% of Brazilians think his performance “good” or “great”. They are keeping the faith.

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Drugs in Mexico

War without end

Mar 4th 2004 | TIJUANA
From The Economist print edition

Success against the country's drug gangs comes at a price

Reuters

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Treading on an MBA

THIS year has got off to a brutal start in what some Mexicans call “the war without end” against their country's drug gangs. Two policemen and an army officer were gunned down in daylight while driving on a main road out of the capital. The rotting corpses of a dozen small-time dealers were found at a house in Ciudad Juárez, on the northern border. Less spectacularly, the everyday killings become more numerous. In January alone, some 100 people were killed in drug-related violence, compared with 1,000 in the whole of last year, reckons Jorge Fernández, a journalist and veteran observer of Mexican crime.

In the past, this toll was testament to the impotence of corrupt police and prosecutors in the face of powerful gangs. Now, it seems, the carnage may be a sign that the government is finally making inroads against the drug mafia. It is one of the few areas where President Vicente Fox has something to show for his promise to “transform” Mexico.

To bypass irredeemably corrupt police forces, Mr Fox set up the Federal Investigations Agency, a 6,000-strong force that spearheads the fight against the traffickers. This has gained the trust of its American counterparts. On drugs, cross-border co-operation is at unprecedented levels. Mr Fox, who this weekend is due to meet George Bush at his Texas ranch, has also deployed the army's firepower against the biggest trafficking gangs.

The Mexican mobs control a trade, in cocaine from Colombia and home-produced heroin and marijuana, said to provide them with anything from $6 billion to $12 billion a year. The top three “cartels”—those based in the border cities of Tijuana, Juárez and on the Gulf coast—are described by an American official as “the largest and most dangerous criminal organisations in the world, bar none”. These “are now struggling for their very survival,” claims Mike Vigil, of the San Diego Division of the United States' Drug Enforcement Administration. Recently, most of the killing has come from turf wars as smaller gangs muscle in on their territory.

The government's war on them has been a real one. A passing cameraman filmed the capture of Osiel Cardenas, head of the “Gulf Cartel”, in which several hundred troops fought 70 hoods. “More bullets (were) flying around than in the first three days of the Iraq war,” says Mr Vigil.

The greatest success has come against the most-feared of the three main gangs, that run from Tijuana by the Arellano-Félix brothers. In 2002, one brother was killed and another arrested; six of the gang's other leaders are now in jail; two other brothers are on the run, with $5m bounties on their heads. But the gangsters have had victories, too. The “Gulf Cartel” has recruited a battalion of the new anti-drugs policemen, turning them into a notorious band of enforcers known as *Los Zetas* (the Zs).

As a result of the pressure, Mexico's drug industry is mutating in ways that Colombia's did a decade ago, into smarter, low-profile businesses which are harder to penetrate. Gone are the days when the drug barons appeared in the social pages of the newspapers, flaunting their girls, cars and gold chains. The new traffickers are more likely to have MBAs or law degrees than to know how to use a machinegun. They also prefer anonymity and plastic surgery, making them harder to track.

Jesus Blancornelas, the editor of a news weekly in Tijuana, argues that the Arellano-Félix group is now “more like a corporation than a gang”. Its guiding force is said to be one of the sisters, with business interests in construction and luxury homes. The group is now less violent, but has more economic clout.

Little of Mr Fox's zeal in fighting corruption has filtered down to state or local level. The 12 dead drug-dealers discovered in Ciudad Juárez were executed by local police at the behest of the local mob. There is no evidence that the flow of drugs across the border into the United States has slowed. Nor, despite energetic action by Colombia's government, is there any evidence that the Mexican traffickers are running short of raw material. The struggle will go on as long as millions of rich cocaine consumers live just over the Mexican border.

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The Galapagos Islands

Fishing for trouble

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Conservation under threat

THESE are dangerous times for conservationists in the Galapagos Islands, whose unique ecosystem inspired Charles Darwin's work on evolution. Last week 30 scientists were held hostage by angry fishermen demanding the right to use semi-industrial techniques in the protected waters around the archipelago. They blocked roads, burned tyres and threatened to unleash goats on pristine islands. Ecuador's government quickly caved in. It promised to set up a committee, on which the fishermen have many allies, to study their claims.

Unless reversed, this decision would have “very serious” implications for conservation, says Sylvia Harcourt of the Charles Darwin Foundation, which runs a research station on the islands. Since 1998, when Ecuador declared the Galapagos to be a marine reserve, decisions about its management have been made by a committee on which conservation bodies, tourist firms, government ministries and fishermen are all represented. The aim is to give the islands' 18,000 residents a say, while striking a balance between conservation and development.

This arrangement was supposed to put an end to years of encroachment by the fishermen, who won longer seasons and the right to harvest sea cucumbers (edible soft-bodied creatures). As a result, the number of fishermen on the islands has doubled, to around 1,000. Catches are diminishing.

Ecuador's president, Lucio Gutiérrez, seemed to have decided to scrap the reserve's decision-making system. In February he yielded to a demand by tour firms to operate more freely on the islands. Will he now have second thoughts? On March 3rd, the environment minister resigned over the fishing row. Hitherto, the Galapagos has been one of Latin America's better-preserved nature reserves. To remain so, it needs some protection from Ecuador's politics.

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Justice in Japan

The people come to court

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AP

A big verdict, and a bigger worry about Japan's criminal-justice system

ONE event sparked a media blitz. The other, which may matter a good deal more, passed almost unremarked.

On February 27th, almost nine years after the Aum Shinrikyo cult shocked Japan by launching a poison-gas attack in a Tokyo subway, a district court judge delivered his verdict on the cult's leader. The judge found Chizuo Matsumoto, who calls himself Shoko Asahara, guilty of masterminding both the 1995 attack, which killed a dozen people and injured thousands more, and several other serious crimes dating back to 1989. He was sentenced to be hanged. The verdict and sentencing dominated Japan's news.

The event that was less noticed but might affect justice in Japan far more was a cabinet decision on March 2nd to send nine legal-reform bills to parliament. These bills, along with another earlier this year, touch on everything from the way lawyers are trained to disputes over patents between aggrieved scientists and their employers.

One of the main areas marked for reform is the handling of criminal cases. Some of the changes now proposed have been discussed for more than a decade, and reformists see this as their best chance for generations to improve a criminal-justice system beset by flaws.

Has the long wait been worthwhile? The most fascinating proposal is to include citizens selected at random on judiciary panels that will rule on serious criminal cases. This would be the first time since 1943 that lay people in Japan would be able to help decide the guilt or innocence of fellow citizens. Other proposals include enabling the public to put pressure on the police to bring charges against criminals, and making it easier for the poor to obtain timely legal advice.

How much difference will these changes actually make? Since one of the reformists' goals is to make the justice system more “democratic”, they are indeed a significant step forward. The lay judges will take part in trials of some of the most serious cases: those that could warrant either a death sentence or life imprisonment; or crimes (such as arson) that unintentionally cause someone's death.

As ordinary people gain clout in the courtroom, they may also tip the scales in favour of other legal reforms. But, as is so often the case in Japan, there are worries that the changes are merely a gesture

that will divert attention from bigger and more necessary steps. David Johnson, an expert on Japan's legal system at the University of Hawaii, says the proposals do too little directly to improve the workings of the police and prosecutors.

In particular, the proposed laws do not address two obvious shortcomings, each linked to Japan's heavy reliance on confessions and its astonishingly high conviction rate of over 99%.

The first is that the authorities seldom investigate crimes thoroughly. In a famously serene and stable society such as Japan's, this does not result in as many criminals walking free as it would in other countries. But it is nonetheless a problem. Risk-averse prosecutors tend to bring charges only when they have a clear-cut case—which in practice means a signed confession. The police can be equally cautious, and therefore slow to make arrests.

Moreover, when they do pursue a suspect, the police show little aptitude for detective work. Their standard way of building a case, from which they rarely deviate, is to question a suspect until he confesses.

Mr Asahara's case highlighted all this. In the years before the Tokyo subway attacks, he and his cult were implicated in several murders and other serious crimes, including smaller attacks using poison gas. Yet the police made little attempt to investigate him. After the Tokyo attacks, it took them nearly nine years to get a conviction, in part because Mr Asahara did not oblige the state by confessing. After the proposed reforms are enacted, a Prosecution Review Commission, staffed by lay people, will enjoy stronger powers to insist on charges being brought. But without a police force capable of running better investigations and making more arrests, this may have little effect.

The second and arguably more disturbing shortcoming of Japan's system is the corollary of the police's fear of failure. Because they do not like to be proved wrong, and because prosecutors press ahead only with cases that are built upon confessions, both groups take full advantage of their sweeping powers to persuade suspects to talk. They can hold suspects for up to 23 days, for example, without charging them. Research from the United States suggests that most suspects cannot hold out for anywhere near that long without offering a confession, genuine or not.

In Japan, moreover, suspects enjoy only limited access to their defence lawyers during this long confinement. Although the constitution grants defendants a right to counsel, that right means little in practice until a formal indictment occurs. The police routinely restrict access to defence lawyers during the holding period, while taking the opportunity to question suspects frequently.

The police and prosecutors, and many judges, argue that the point of this system is to foster rehabilitation and atonement, by encouraging criminals to admit the truth. Yet the authorities do not seem to believe that making audio or videotapes of these truth sessions would aid the healing process. In the land of video cameras and tape recorders, police interrogation cells are just about the only gadget-free zones.

Even some critics of the system allow that Japan's authorities may be more interested in the truth than their counterparts in other justice systems. Yet Japan's defence lawyers refer to the dangerous potential of a “Galapagos Island effect”: the possibility that a suspect's story, after he has spent so long in an isolated interrogation environment, will diverge sharply from what originally happened.

By neglecting to tackle these problems head on, Japan's government has failed to make the most of an excellent chance for real reform. If there is still hope, it lies with those lay judges. When they sit in judgment, and see how criminal cases are put together, will they go along with the old system—or will they start voting, one case at a time, for something better? At least now there is a chance.

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North Korea

Talk is cheap

Mar 4th 2004
From The Economist print edition

But so far diplomacy is getting nowhere

Get article background

WHERE there is a gulf to be bridged, it is best to know how wide the gap is. In that way at least, the second round of six-way talks over North Korea's nuclear activity that ended in Beijing on February 28th represented progress of a sort.

All agreed to meet again before the end of June, and in the meantime to set up a working group. And all agreed on what they disagree about: America, claiming the support of South Korea, Japan, China and Russia, insists on the “complete, verifiable and irreversible” dismantling of North Korea's nuclear programmes, while North Korea has offered to freeze only its “military” programme, not its “civilian” one.

A bridgeable gap? Sadly, far from it. America accuses North Korea of having a covert programme to enrich uranium and says that this, and an earlier illicit programme to extract plutonium, another bomb ingredient, from spent reactor-fuel, must be dismantled if the North is to gain the security assurances, trade and diplomatic recognition it demands. But the North flatly denies all enrichment ambitions.

Some Chinese and South Korean officials, anxious for a deal with North Korea, have recently taken to wondering out loud if America's accusations of uranium-enrichment are correct. But Abdul Qadeer Khan, Pakistan's top nuclear scientist, has now admitted that he sold such technology to North Korea, Iran and Libya in the 1980s and 1990s; so North Korea is having to try a different ploy. By distinguishing instead between military and civilian nuclear activity, it is hoping to win concessions for shutting down its known plutonium-making facilities, while continuing to draw a veil over its other activities. But the reality is that North Korea has no civilian nuclear programme. Its one working reactor, at Yongbyon, is not hooked up to North Korea's electricity grid.

Might North Korea be prepared to trade in both programmes if the price were right? America has said it would not object to South Korea and others offering energy assistance if North Korea were to start taking verifiable steps towards disarmament. Verification, however, would be another huge obstacle. The sort of transparency required to prove that North Korea had abandoned all nuclear-weapons ambitions—rather as Libya abandoned its covert bomb-building in December—goes far beyond anything this secretive regime is likely to agree to.

Yet talks will continue, at least for a while. America wants to show that it has tried negotiations with the North, should sterner measures eventually be called for. And George Bush will surely not want a nuclear crisis to disrupt his hopes for re-election in November. North Korea, for its part, is presumably rooting for Mr Bush's opponent, the more conciliatory-sounding John Kerry, to win. But whoever is in the White House on January 21st, 2005, no deal with North Korea will be easy to broker—or make stick.

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Elections in Asia

On the road again

Mar 4th 2004 | DELHI
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India heads for its usual lengthy election; Malaysia opts for a snap

IN 1990, it was a *rath yatra*, a chariot procession. This year, it will be a "road-show". Both involve L.K. Advani, now India's deputy prime minister, touring the country to drum up support for the Bharatiya Janata Party (BJP). His chariot ride, to campaign for the building of a Hindu temple on the site of a mosque in Ayodhya, launched the BJP as a national party. Now the BJP is in power, and the theme of the road-show is that India is "shining", not with the glare of Hindu nationalism, but with the glow of a booming economy.

The prime minister, Atal Behari Vajpayee, dissolved parliament last month, and this week the Election Commission named dates for a four-stage election. To allow security forces and electronic voting machines to be deployed across the world's most populous democracy, voting will be staggered, with the first round on April 20th, the fourth on May 10th, and the count on May 13th. Most states will poll on just one of the four days; several bigger ones, like Karnataka, on two. In the biggest states, Uttar Pradesh and Bihar, polling will need three different days. In strife-racked Kashmir, all four.

The BJP's platform has two main planks: an economy that, this fiscal year, is expected to have grown by more than 8%; and Mr Vajpayee himself, India's most respected politician, and the instigator of popular peace talks with Pakistan.

The party hopes to increase its share of the 545 seats in the lower house of parliament from the 182 it won in 1999. The main opposition, with 112 seats, is the Congress party, which ruled India for most of its first 50 years of independence. Its theme is that, for most Indians, the country does not shine. Presenting itself as the party of the neglected poor, Congress also accuses the BJP of continuing to stoke communal fires. Its leader, Sonia Gandhi, is the Italian-born widow of Rajiv Gandhi, a Congress prime minister like his mother and grandfather. The BJP makes much of her origins, and Congress's dynastic obsessions.

Both parties know that the next government, like this one, will be a coalition. They are busy forming alliances with regional and caste-based parties. Polls suggest that the BJP's confidence is justified; but it may find itself as dependent as in the last parliament on a motley set of partners.

Whereas in India elections move with elephantine slowness, in Malaysia they strike like rattlesnakes. Abdullah Badawi, the prime minister, dissolved parliament on March 3rd, and the election is expected in less than three weeks. The government is near-certain to be returned: but, as in India, the exact dimensions of its success will be critical. If Mr Badawi, who took over only in October, loses control of a third state, and perhaps even if he fails to recover one of the two his party lost in 1999, his tenure may prove brief.

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Pakistan's Shias

The other victims

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Shias are targets in Pakistan, too

AP

In whose name?

THE attacks on Islam's Shias, which left around 170 dead in Iraq, also took their toll in the Pakistani town of Quetta, near the border with Afghanistan, on March 2nd. More than 40 people were killed and over 150 seriously injured after unknown terrorists attacked a Shia procession with guns and grenades during a religious ceremony to mark the Shia holy day of *Ashoura*. The enraged marchers went on a rampage, setting shops on fire. Troops were called out and a curfew imposed. The same day, over a dozen Shias were killed in the remote northern town of Parachinar as well, in an accidental stampede provoked by fears of a Sunni attack.

Although sectarian strife is not new to Pakistan, its more violent and organised form has its origins in the *jihad* against the Soviet occupation of Afghanistan in the 1980s. The Afghan resistance was then lent a hand by extremist Sunni groups in Pakistan. Among these was the Sipah-i-Sahaba, based in southern Punjab.

In the 1990s, the Sunni-Shia divide in both Afghanistan and Pakistan became markedly bloody. In central Afghanistan, the Shia Hazaras bore the brunt of the Sunni Taliban's repression and religious cleansing after they came to power. In Pakistan, the Sipah-i-Sahaba became the umbrella organisation for several underground groups, among which the Lashkar-i-Jhangvi was the most virulently anti-Shia. Attacks on prominent Pakistani Shia clerics, civil servants and medical doctors multiplied, mainly in Karachi, although some Iranian diplomats were also targeted in southern Punjab cities. Recently, however, the focus has shifted to Quetta, where 57 people were killed last July when gunmen opened fire in a Shia mosque during prayers.

Authorities in Pakistan have never been able clearly to explain which Sunni organisation is behind the attacks in Quetta, and why it is so difficult to stamp it out. One line of thinking has it that the Lashkar-i-Jhangvi is responsible, in association with the remaining Taliban hiding in Pakistan near the border with Afghanistan, from where they are waging war against the government in Kabul. This theory is supported by the fact that the attacks are aimed at the Hazara community of Pakistan, which is settled in and around Quetta. The destabilisation of Pakistan itself, as an ally of America in the war against the Taliban, may also be an aim.

An explanation for the persistence of anti-Shia attacks may paradoxically be that the various Sunni

sectarian groups are also suppliers of manpower for the *jihad* against India in Kashmir, which, according to Delhi, has been unofficially sponsored by the Pakistani government. Conspiracy theorists argue that stamping them out before a political solution with India on Kashmir is found would weaken Pakistan's hand in the negotiations.

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Central Asia

Liquid dominoes

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From The Economist print edition

Bad system, bad neighbours

Get article background

CONTEMPLATING the slow death of the Aral Sea, one would be tempted to think there is not enough water in Central Asia. Yet parts of Kazakhstan and Uzbekistan—the countries bordering the drying sea—have now been hit by floods. Over 2,000 people had to be evacuated in southern Kazakhstan last month. Nature, however, does not have much to do with it. At fault are bickering neighbours and an arcane system of water management that would make any Soviet bureaucrat proud.

By last December, the Chardara reservoir, sitting on the Syr Darya river in southern Kazakhstan, was already filling dangerously fast, due to flows from the Toktogul and Kairakkum reservoirs in neighbouring Kirgizstan and Tajikistan (see map). In a system largely inherited from Soviet times, these last two countries are supposed to store water in winter, releasing it later in the year to irrigate the cotton fields in Uzbekistan and Kazakhstan.

By doing so, however, they miss out on the chance to generate hydro-electricity when they most need it. In compensation, they are supposed to receive gas and coal from their fuel-rich but water-poor neighbours in the winter. These agreements, unsurprisingly, often falter.

If, as happened last year, Uzbekistan and Kazakhstan need less water than expected in the summer, they provide less fuel in payment the following winter. But this leaves Kirgizstan and Tajikistan out in the cold. The system makes everyone feel cheated, so the agreements get broken. This winter, faced with an energy shortfall, Kirgizstan and Tajikistan opened their reservoirs, generating more hydropower—but more pressure downstream.

To avoid a catastrophic overflow over, or a collapse of, the dams around Kazakhstan's Chardara reservoir, water had to be released from it. In the past, Kazakhstan discharged water into the Arnasai depression, just on the other side of the border. Uzbekistan, however, has now built dams blocking the discharge. So instead, Kazakhstan dumped water into the Syr Darya, which overflowed its banks.

On January 4th, the deputy prime ministers of Kazakhstan, Kirgizstan and Uzbekistan met to discuss the situation. Kirgizstan agreed to limit releases from its Toktogul reservoir, while Uzbekistan was to let more water flow into Arnasai to ease the pressure on the Kazakhstan side. By a week later, when another meeting also including Tajikistan was held, not much had happened. By the end of January, the first floods were reported, and Chardara was threatening to overflow.

Following more meetings and acrimonious finger-pointing—and spurred by the prospect of imminent disaster—everyone has finally started doing what they promised. The crisis now seems to be under control—until next year.

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Thailand

Silent night

Mar 4th 2004 | BANGKOK
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The government cracks down on bars

EPA

Hurry up, please, it's closing time

ONE night in Bangkok makes a hard man humble, goes the song. But how about seven hours? After a new law comes into effect on April 1st, night-spots will be open only from 6pm to 1am, except in a few exempt zones. The original bill said midnight, but protests from the entertainment industry forced the government to relent by an hour.

Thaksin Shinawatra, Thailand's dauntless prime minister, has noisily pursued what he calls a “social-order campaign” since coming to office in 2001. After waging a “war on drugs” last year, during which some 4,000 dealers died, he has now switched his focus to night-life.

Such restrictive measures go down well with many Thais, who deplore their country's image as a haven for louche tourists and abhor the relatively lax morals of today's urban youth. But even if the policy proves politically popular, the economic impact is palpable. Only about a tenth of Bangkok's night-spots are located inside the city's three exempt zones, where bars and night-clubs can remain open until 2am. Whole bar-crawling districts, such as Sukhumvit and Khaosan roads, fall outside. Go-go girls and “masseuses”, fearing for their livelihoods, have held protest marches. Many night-spot owners, who complain that they are already having trouble making ends meet with the 2am closing time introduced a few years ago, say they may have to shut up shop.

The likelihood, points out Chuwit Kamolvisit, a massage parlour tycoon, is that police will use the new regulations to extract more bribes from businessmen like himself. The rules are unnecessarily complicated, and Bangkok's exempt zones encompass its seediest districts, including infamous Patpong, undermining their prudish rationale.

There is hope, however, for South-East Asia's revellers. As Bangkok straightens its laces, Singapore is lightening up. Its government recently legalised dancing on bars, and has extended opening hours. But it does not seem to have occurred to the leaders of Thailand or Singapore that the bedtime of their citizens is none of their business at all.

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Hong Kong and Taiwan

The twin thorns in China's side

Mar 4th 2004 | BEIJING
From The Economist print edition

Beijing is rattled by democrats

Get article background

AFTER crushing the Tiananmen Square protests some 15 years ago, Chinese leaders sought to reinforce their message by launching a “patriotic education” campaign. The aim was to convince young people that to oppose the Communist Party was to betray the nation. Now it is Hong Kong's turn for a lesson.

In February Chinese officials and their supporters began accusing leading pro-democracy politicians in Hong Kong, some of them by name, of being unpatriotic. This is a harsh accusation in the Chinese political lexicon, but it has special significance in Hong Kong. China's late leader, Deng Xiaoping, decreed that Hong Kong would be ruled mainly by patriots after the withdrawal of the British in 1997.

Until last month, there was little question as to what this meant. Hong Kong's post-colonial political structure made it all but impossible for anti-communists to take control. But recently the central government has begun to worry. It fears that critics of the Communist Party could dominate Hong Kong's 60-seat legislature after elections in September. Until now the majority of legislators have been chosen by select groups of voters who tend to listen to what the party wants. In September, the number of seats chosen by the general public will rise from 24 to 30.

China's worries are compounded by the recent success of pro-democracy forces in rallying opposition to efforts by the Hong Kong government to enact anti-subversion legislation. An upsurge of support for the democrats could also complicate the government's plans for the cautious introduction of more democratic procedures in future elections. The democrats want Hong Kong's chief executive and the entire legislature to be directly elected by 2008. The central leadership and much of the territory's business leadership say that this would damage stability.

When Hong Kong began talks in early February with Beijing about how to proceed with political reform, central government officials recalled Mr Deng's words. Since then, the gloves have come off. Three prominent pro-democracy legislators—Martin Lee, Szeto Wah and Emily Lau—have been labelled “unpatriotic”. So has the Hong Kong Alliance in Support of the Patriotic Democratic Movement in China, an organisation formed during the Tiananmen unrest and whose leaders include prominent democrats. A Hong Kong newspaper controlled by the central government warned that the legislature could be dissolved if democrats gained control.

Ironically, Mr Deng's discourses offer a rather inclusive definition of a patriot as one who “respects the Chinese nation, sincerely supports the motherland's resumption of sovereignty over Hong Kong and wishes not to impair Hong Kong's prosperity and stability.” He said such people were patriots “whether they believe in capitalism or feudalism or even slavery”.

But China is now digging in its heels, despite the risk that this could further alienate voters in Taiwan, which will hold presidential elections on March 20th. Last weekend, 1m people in Taiwan joined hands in a 300-mile human chain from the north to south to show their defiance of the mainland. The annual session of China's parliament, which was due to start this week in Beijing, is likely to produce more vitriol, aimed both at Taiwan's independence-leaning President Chen Shui-bian and Hong Kong's democrats. In China, legislatures do as they are told.

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Iraq

Will the bloodstained Shias resist the urge to hit back?

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From The Economist print edition

EPA

The latest carnage was intended to spark a civil war. So far it hasn't. But the Shias are not all of one mind

IT WAS *Ashoura*, the holiest day of the Shia Muslims' calendar, and the bloodiest since the Americans took over Iraq. Sweetmeat carts were turned into stretchers to ferry many of the 169-plus dead and hundreds of injured who fell victim to the suicide bombs at Shia shrines in Baghdad and Karbala, a holy city to the south of the capital, on March 2nd. The bombs exploded just as Shias in their hundreds of thousands, armed with razors and swords, began their first public processions of scalp-slashing in Iraq for 25 years.

But the bigger question, after the bodies had been carried away, was whether the Shias and their leaders could resist the temptation to avenge themselves against Sunni Iraqis, whose co-religionists from abroad were suspected of planning the atrocities. The earliest indications are that they can. “Sunni and Shia leaders are united [in agreeing] that blaming each other is not in their interest, and that a third force is trying to incite civil war,” says Emir al-Hellou, a notable Shia journalist.

Only the day before, Iraq's American-appointed Governing Council (GC) had announced “the birth of the new Iraq” after jubilantly agreeing to a “basic law” giving Iraq the most progressive, albeit interim, constitution in the region. A bill of rights provides for freedom of press, religion and assembly, for a federal state that would leave the Kurds with most of their autonomy, and for Islam to be “a” but not “the” source of law.

The Shias have too much to lose by succumbing to the temptation to hit back at Sunnis and thereby start a civil war. Land prices in the holy cities have leapt by as much as tenfold since the removal of Saddam Hussein, twice as fast as elsewhere in Iraq. Freed from the dictator's curbs, the pilgrimage industry, after oil and American largesse, may be Iraq's biggest source of revenue. Officials in the ruling Coalition Provisional Authority (CPA) say that some 300 hotels in Karbala are going up—but not fast enough to accommodate the many thousands pouring across Iran's borders.

Nor have the bombs diverted Shia leaders from the sense that America's takeover has brought them to the cusp of winning the lion's share of power in Iraq for the first time in nearly 400 years. Shias have 13

of the GC's 25 seats, and, despite their calls for early direct elections, most of them seem content to fashion a provisional government out of an expanded council.

How times have changed. For the first time in living memory, many non-Shias felt obliged to celebrate *Ashoura* too. Christian restaurateurs set up soup kitchens in the streets, serving the traditional *Ashoura* stew known as *Timanwa Qima*. Even Sunni politicians doled out the gruel. For days and nights Shia hymns blared from car radios and mosque loudspeakers. Iraq's new American-financed television channel beamed enthusiastic footage of the self-mortification of young children lashing themselves with chains. Vast flags, embossed blood-red with the name of the seventh-century imam Hussein, hung from state institutions. After the bombing spree, Shias secured three days of mourning. That did not happen when suicide bombers killed 100-plus Kurds last month.

Is this euphoria and emotion simply the result of pent-up frustration after 35 years of suppression, or is Iraq falling under the sway of a religious regime? On the streets, Shia vigilantes chide unveiled women. Though ministers deny it, female civil servants have been threatened with dismissal if they insist on not covering their hair. After the carnage at the shrines, quite a few non-Shias muttered that the religious zealots had got their comeuppance.

In any event, Iraq's balance of power is shifting the Shias' way. Saddam Hussein diverted all donations to Iraq's four major sepulchres to his own treasury. Buoyed by the influx of pilgrims, the cash now goes to the ayatollahs. The clergy have begun to collect *khums*, the tax worth 20% of income which Shias are meant to give to their religious mentor. The number of students in religious seminaries is soaring.

Who runs the show?

At the pinnacle of this scholastic movement presides Grand Ayatollah Ali Sistani, who since the summer has won effective recognition as primus inter pares among Iraq's four undisputed grand ayatollahs. But despite his reputation as a quietist, he is no mere academic. He has stopped short of naming an Iranian-style Council of Guardians to oversee the politicians, but he has stamped his power of veto on the country's politics. This week's basic law was only agreed to after he had assented to the final draft, subject to the proviso that all laws be compatible with Islam.

A Shia dozen who matter most

Grand Ayatollah Ali al-Sistani	The most venerated of Iraq's four grand ayatollahs, whose religious prescriptions issued from run-down lodgings in h by most of the world's 170m Shias. Despite his seclusion, reputation for "quietism" and his Iranian origin, he is Iraq's
Ibrahim al-Jaafari	Member of Iraq's Governing Council (GC) and leader of the country's oldest and probably still most popular Shia party, "invitation", ie, a call to Islam). It is led by a *shura* (consultative body) of professionals and clerics founded in the cha revolution; its violent attempt to set up an Islamic state was thwarted by Saddam Hussein. A medical doctor who spen in London, Dr Jaafari is struggling to regain control of his fractured movement.
Abdel Aziz al-Hakim	GC member and leader of the Supreme Council for Islamic Revolution in Iraq (SCIRI) founded in Iran in 1982 as the Ira Khomeini's revolution. His brother was killed by a suicide-bomb last year. The party appeals to upper-middle-class Ira Badr militia is viewed by opponents as Iranian mercenaries.
Muqtada al-Sadr	Fiery scion of a distinguished family that was prominent under the British-backed monarchy but has been excluded fr the Americans and by Iraq's Shia hierarchy. His father was murdered, probably by Saddam Hussein. His pro-Arab Kora courageous refusal to flee into exile (unlike most Shia leaders) impresses many of Iraq's Shia urban poor.
Ayad Allawi	Secular GC member who left the Baath Party in 1971 but his Iraqi National Accord shares much of its ideology. His larg close ties with Arabs outside Iraq, especially in Jordan and Syria. He is also favoured by the CIA. Now controls Iraq's i
Ahmed Chalabi	Mr Allawi's secular rival in the GC, he hails from a family of bankers to the Hashemite royal family which ruled Iraq unt close relations with both Iran and neo-conservatives in the Pentagon, but is less popular in the Iraqi street and Arab accused of being soft on Israel and too keen on money. Controls Iraq's finance ministry.
Mohammed Bahr al-Uloum	GC member, often dubbed the ruling American-led coalition's pet ayatollah, who spent 12 years in exile in London. Hi
Muwaffaq al-Rubaie	An ambitious GC member who describes himself as ex-Dawa; he is close to both Paul Bremer, the American proconsul,
Raja al-Khuzai	Secular GC member and most articulate defender of women's rights among the GC's three women. She ran a women's
Mohammed Dabdab	Head of Iraq's Student Union under Mr Hussein. Born in Baqouba, now heads the Syrian-backed Islah party, which ad without Mr Hussein. His party activities remain low-key but the party paper circulates unrestricted.
Ayad Jamal al-Din	Liberal Baghdad Shia intellectual from a prominent clerical family. Powerful advocate for separation of mosque and st
Saadoun Hammadi	Mr Hussein's Karbala-born prime minister in 1991, now in Jordan. The most prominent member of Mr Hussein's inner American captivity. May still have some support among Shia Baathists.

Part of Mr Sistani's attraction for Iraq's Shia politicians stems from his *fatwa* that allows followers not only to raise donations and tithes in his name but to spend them too. After the killing of Mohammed Bakr al-Hakim, spiritual leader of the Supreme Council for Islamic Revolution in Iraq (SCIRI) by a car-bomb

last August, the party recognised Mr Sistani as its spiritual leader. Its coffers are said to be bulging.

But by no means all Iraq's Shias recognise Mr Sistani's authority. Muqtada al-Sadr continues to follow the guidance of his late father, Mohammed Sadiq al-Sadr, a grand ayatollah initially favoured by Mr Hussein who, it is thought, then had him killed. Mr Sadr rails against Iran's influence over Iraq's clergy, mocks Mr Sistani's heavy Persian accent and lampoons the Hakims as Iranian agents who fled into exile. His attacks on Iraq's part-Persian merchant class, which backs Mr Hakim, resonate in Baghdad's Arab slums but have provoked the clerical mainstream into ostracising him. As a punishment, the *hauza*, the Shias' religious establishment, has deprived him of a share of shrine donations.

Iraq's oldest and possibly most popular Shia party, Dawa, slowly re-merging from the underground, also has reservations about Mr Sistani. “We respect the street and the street supports Sistani,” says Dawa's leader, Ibrahim al-Jaafari, but he scowls as he picks though Mr Sistani's latest *fatwa* and refuses to say who, if anyone, is his movement's spiritual mentor. From its foundation in 1959, until 1979, Dawa was Iraq's largest Shia party, seeking to bridge the gap between the Shia clergy and the Shia lower-middle class, many of whom took a shine to communism. After Mr Hussein decreed that Dawa membership was punishable by death, its members turned violent and fled underground.

Persecution hurt the movement. Different wings found different mentors. Some follow Ayatollah Mohammed Fadlallah, who inspires the violent Hizbullah movement in Lebanon. Dr Jaafari, back from exile in London, is struggling to regain control. He is probably the most popular of the GC's members but it is questionable whether he could control the militias that might well spring up in his party's name. Still, if Dawa could ally itself with the Sadr lot, it would probably thrash SCIRI at the polls in most towns except Basra, Iraq's second city, and Najaf, the Shias' holiest.

In any event, the religious politicians have to compete against secular ones for the Shia vote. Ayad Allawi, another Shia who was in exile in London, has gone some way to picking up the remnants of the Baath party, making links to trade unions and beefing up the revamped interior ministry he now controls. He has done most to curry favour with Sunnis.

His influence, however, is bitterly contested by his long-standing rival, Ahmed Chalabi, another secular Shia with an impressive financial base boosted by contracts from Iran and by the Pentagon. Iraq's oldest political party, the Communists, is also seeking to win back its old constituency among the urban poor.

Can such secular-minded Shias win broad backing, even among non-Shias? Maybe not; it is hard to say. What is more probable, if Iraq manages to have elections, is that Shia-based parties will emerge with the biggest overall support. But they may have to settle their differences to form a ruling coalition—and would be wise to team up with at least some Kurds and Sunnis as well. For the Shias are not a political monolith.

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The history of Shia Muslims

Why the aggravation?

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Bad blood did not always flow between Sunnis and Shias

"BETTER sixty years of tyranny than one day of *fitna*." The term in the Arabic saying refers to civil strife, particularly the kind caused by religious schism. Not only is *fitna* a calamitous sign of the coming day of judgment; it also reflects fears deeply embedded in Muslim memory. The schism between Sunnis and Shias in the early centuries of Islam was blamed for blunting the new religion's expansion. Later, it was blamed for weakening Muslims in general, and for opening the way to invasion by infidel hordes.

Few mention such things now, but long ago a communistic Shia sect raided Mecca, stole the sacred Black Stone, and held it hostage for 22 years before returning it, broken in pieces. Shia dynasties once ruled Tunisia, Egypt and the eastern end of the Mediterranean. Their overthrow by orthodox Sunnis was seen by them as a greater triumph than the defeat of the Crusaders. And of course *Ashoura*, the day of martyrdom celebrated last week, commemorates Shia suffering at the hands of Sunnis.

AFP

Prostrate outside Ali's shrine in Najaf

Yet for the last 800 years or so, sectarian divisions have lain mostly dormant. Shias tended to live in isolation and on the margins—in the mountains of Lebanon and Yemen, on the hot, swampy shores of the Persian Gulf, in self-contained Indian trading communities. In Iran, where they formed a majority, Shiism overlapped with and reinforced an exclusive Iranian national identity. Neither Sunnis nor Shias knew or cared much about their cousins. Few challenged the Sunni assumption of superiority, while the Shias, with their doctrinal emphasis on martyrdom and victimhood, thrived on their own marginalisation.

Urbanisation, migration and the imposition of national borders have brought the sects into renewed proximity. Mostly, the mixing has been painless. For decades, city-dwelling Sunnis and Shias in Beirut and Baghdad happily intermarried. Forty years ago, Egypt's leading cleric of the time even declared mainstream Shiism to be an accepted branch of the faith. But other strains of Sunnism have been less tolerant.

The puritan revival known as Wahhabism has, since its beginnings in Saudi Arabia, been particularly hostile to Shiism. In the early 19th century, Wahhabi raiders sacked Shia shrines in Mecca, Medina and Karbala, accusing their keepers of worshipping idols. Saudi Arabia still denies many rights to its large Shia minority, and vilifies it in school textbooks.

Wahhabism has strongly influenced modern Sunni militant movements, including Afghanistan's Taliban, radicals in Pakistan, and some components of Osama bin Laden's al-Qaeda. On the morning of this *Ashoura*, for instance, a Kuwaiti sheikh, Hamed al-Ali, posted on his website a letter condemning the rite as "the world's biggest display of heathens and idolatry". He accused Iraq's Shias of plotting to assassinate Sunni leaders, foment strife across the region, grab the Gulf's oil, and form an evil axis linking Washington, Tel Aviv and the Shia holy city of Najaf.

Even more poisonous vitriol appears in a letter that American intelligence attributes to the alleged leader of al-Qaeda in Iraq, Abu Musab al Zarqawi. The Shias, he says, are a more pernicious enemy than the Americans, and the best strategy for the poor, weak and sleepy Sunnis is to "strike their religious, military and other cadres"—in other words, to stoke *fitna* so as to preclude the transfer of power to a Shia-dominated democracy.

Yet many Muslims, including Iraqi Shias, shy away from accepting that fellow Muslims could commit so heinous a crime as this week's slaughter. Hassan Nasrallah, the charismatic leader of Hizbullah, the Lebanese Shia militia, declared that the main beneficiaries of the attacks were America and Israel. Yet, he added, if it turned out that the perpetrators were “petrified extremists living in the stone age who claim allegiance to Islam”, then this was a far sadder and greater danger.

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America's Greater Middle East Initiative

They grumble, but they move

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The region's rulers hate being prodded, but they see the point

IF THERE is one thing everyone in the Middle East agrees upon, it is that the region is in a mess. As well as too much hot strife and cold oppression, it suffers from the world's highest rates of population growth and unemployment, an ominous combination. So why have Arab leaders greeted America's new proposals for reform with near-universal scorn?

Pride is one obvious reason, along with a fear that reform would threaten their own rule. Arab rulers also (and in rare accord with the majority of their people) dislike the messenger. The Bush administration is seen as having ridden roughshod over Arab sensibilities about Iraq, the Palestinian issue, and the pursuit of a war on terror that many Arabs think has broadened into a general hostility to Islam.

Such Arabs complain that the Bush administration portrays the Arabs' “democratic deficit” as the chief obstacle to Arab-Israeli peace. Some say that America's past record of backing friendly dictators makes it suspect, others that America is now so despised that its imprimatur merely brands reform projects as exercises in neo-colonialism. Writing in a pan-Arab daily, *Al Hayat*, Moncef Marzouki, a veteran member of Tunisia's opposition, argues that to the region's few real secular democrats, such as himself, America's sudden interest in reform could be a kiss of death.

Yet the response to the Greater Middle East Initiative, as the still-vague American plan calls itself, may prove less prickly than it looks on the surface. The proposals, first floated last month, are intended for presentation in June at the annual summit of the G8, the seven main western powers plus Russia. In a notable change of tack, America is seeking firm backing from its major allies.

Britain and Germany have already signed on, and their foreign ministers have delivered speeches in support of sweeping change in the Middle East. Others are likely to follow. Not only will these countries be keen to heal wounds with America, but many also agree with the American premise that the combustible mix of exploding demography with political and economic stagnation across the vast region from Pakistan to Morocco is a serious threat to the rest of the world.

Since this region hugely relies on western aid and trade, its governments will find it hard to dismiss concerted pressure from so broad an alliance. America's three-pronged list of aims—promoting good governance, better education and economic growth—tallies neatly with the European Union's “Barcelona process”, a $1-billion-a-year plan to tie Mediterranean countries into a web of trade and political accords, while improving human rights and economic accountability.

Yet a close reading of early drafts of the initiative reveals little that is really new. Specific proposals include such mild suggestions as technical assistance for elections, creating “women's leadership academies”, and training journalists to be more professional. Hardly throne-shaking stuff, particularly for regimes skilled at faking polls, tailoring laws to suit their cronies, gagging the press, and so on.

So why does it make them so twitchy?

If there is any reason for such regimes to worry, it is mounting pressure not from outside but from inside their own countries. In response, every government in the region, without exception, has in recent years adopted reformist slogans. In some cases, the change has been marked and real. Bahrain, Qatar and Morocco, for example, have all moved towards giving their people far wider civil and political liberties. Tunisia, Saudi Arabia, Jordan and even the regional laggard, Syria, have begun to open up their economies. If nothing else, America's initiative may well speed up changes that have already started.

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Tourism in Somalia

Far from the madding crowd

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From The Economist print edition

Well, far from other tourists, anyway

HE HAS perhaps the world's hardest job, but very little to do. Abdi Jimale Osman is Somalia's minister of tourism. His inbox is always empty; unsurprisingly, given that his anarchic homeland has not had a single officially acknowledged tourist in 14 years.

Somalia is not without attractions. The sun shines, the beaches are sandy and you can dine on lobster on the roof of the Sharmo Hotel, which commands a splendid view of the capital, Mogadishu. It is not safe, however. The Sharmo advises guests to hire at least ten armed guards to escort them from the airport.

Since civil war broke out in 1990, Somalia has been divided into some two dozen warring fiefs. But Mr Jimale is undaunted. “Tourists can still go and see the former beautiful sights,” he says. “The only problem is they're all totally destroyed.” Your correspondent admired what was left of the cathedral. Graffiti outside warned “Beware of landmines”.

Mr Jimale wants donors to help rebuild Somalia's national parks, though they mainly lie in areas the government does not control. “Most of the animals have disappeared too,” he concedes, “Because we have eaten them.”

Brave tourists can find unusual bargains in Mogadishu. In the market, a hand grenade sells for $10, a Howitzer for $20,000. For those who remain unconvinced, Mr Jimale is reassuring. “I'm sure tourists would leave Somalia alive and I'm hopeful they wouldn't be kidnapped,” he says. “At least, we would try to make sure they were not kidnapped, although it can happen.”

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Saudi Arabia

Adapt or die

Mar 4th 2004 | RIYADH, JEDDAH AND JIZAN
From The Economist print edition

The royal rulers of Saudi Arabia sense that their country is in crisis but don't know how to solve it. Time is short

Get article background

"WHAT the Saudis want is a quiet life," says a distinguished British Arabist, dolefully acknowledging that they can no longer have it. Sitting on top of the world's biggest patch of oil, the extended family that runs the most absolute and also the most complex of the world's surviving monarchies has managed to fend off the assaults of modernity and democracy for the 72 years since the Saudi state's foundation. It has done so by paying off subjects and neighbours and by pandering to the region's most ferociously puritanical religious establishment, all as a reward for relative calm.

No more. Saudi Arabia's biggest neighbour, Iraq, is a cauldron whose swirling potion threatens to spill over into the kingdom. The Saudi clergy are divided, resentful and restive. And judging by the relentless catalogue of raids against suspected terrorist nests within the kingdom, some of the ailing King Fahd's subjects are ready to die in order to bring down the house of Saud, though what they want instead is not so plain. Saudi Arabia is simmering.

Crown Prince Abdullah, the king's 81-year-old half-brother, who has run the show since the monarch suffered a series of strokes in 1995, knows he must reform if he is to save his country—and his family—from chaos. In the past year he has made several unprecedented but still tentative changes. Wittingly or not, he has raised hopes among reformers and prompted a wave of foreboding among conservatives.

The most daring of his promises is to let people vote for half the seats in local elections to be held by October. That is a far cry, to be sure, from full-blooded democracy; but the crown prince's reform-minded friends drop heavy hints that it is only a beginning: a new tolerance, openness and accountability are on the way, leading to greater religious, economic and political pluralism. More recently, however, a sense of dithering hesitation has returned; discord within the ruling family may be bubbling, as the crown prince seeks to balance liberals and reactionaries.

The two biggest events that have knocked Saudi Arabia askew are the felling of New York's Twin Towers in September 2001 by suicide bombers, some three-quarters of whom were Saudi, and the American invasion of Iraq, together with the subsequent continuing attempt to replace an Arab dictatorship with that rarest of species, an Arab democracy. Two other events have also shaken Saudi Arabia: the bombings and terrorist attacks inside the kingdom last May and November.

As far as Saudis were concerned, the Twin Towers were far away. Many Saudis felt that, at least to a degree, the arrogant Americans deserved that disaster. Moreover, many Saudis remained in denial of their country's connection, often subscribing to the view, popular even among well-educated Arabs, that somehow the Israelis were responsible for the atrocity. And the surge of American hostility to Saudi Arabia, when it emerged that most of the hijackers were Saudi, fostered an ever sharper sense of Saudi prickliness.

Many Saudis say that the bomb blast in May last year, which killed 34 people, eight of them American, opened Saudi eyes to the reality of home-grown terror. But again, the attack was directed at foreigners, and moreover a growing number of Saudis wanted all Americans out. The November bomb, however, was different: almost all of its 18 victims were Arabs, and many were Saudis. That, it appears, has changed and concentrated minds. It was certainly a spectacular own goal by the bombers that may well have set back the cause of creating an infidel-free, Sunni Islamist, theocratic republic.

But the cause lives on. Last year the Saudi security forces, according to a paper circulated by the Saudi-US Relations Information Service, carried out “158 raids on various terrorist elements and groups”. Since September 11th 2001, several thousand terrorist suspects have been questioned and more than 600 detained. The net has been cast wide, taking in the capital, Riyadh, as well as the holy cities of Mecca and Medina, the commercial port of Jeddah, the conservative heartland's province of Qasim and its city of Buraida, and the south-western province of Asir that abuts the notoriously porous border with Yemen, where the family of Osama bin Laden originates. The authorities say they are getting on top of the terrorists. But the continuation of activities—the police were brazenly attacked in Riyadh in January—suggests they have far to go.

It is, of course, difficult to judge the popularity of Mr bin Laden—or indeed of anyone in the kingdom, given the absence of elections, the muzzling of the media, the reluctance to talk openly about politics and the dearth of opinion polls. A survey carried out last July for the Arab-American Institute, an American lobby, found barely 8% of respondents praising the al-Qaeda leader—perhaps unsurprisingly, given Saudi awareness of the risks of dissent. It seems likely, anyway, that his popularity has dipped since the November attacks.

Anecdotal evidence, however, backs an assertion by an Australian writer on Saudi Arabia, Daryl Champion, that Mr bin Laden “enjoys a semi-underground folk-hero status with many in the kingdom—and not just the 15,000 Saudi nationals who participated in the *jihad* in Afghanistan”. His admirers are said to be numerous on university campuses and among the rising number of unemployed. Plainly, many radical clerics have expressed support for his aims, though the authorities have been vigorously cracking down on the more outspoken of them. A former West European ambassador to Saudi Arabia recently made a bold guess: “If there were an election today, bin Laden would win by a landslide.”

Who can tell? Doubtless many Saudis do still want that quiet life. But clearly, too, there is a widening pool of resentment that could, especially if the oil price were to dive, foment extremism. The spectre of Mr bin Laden terrifies both the royal rulers and the professional middle class that wants more of a say in running the place.

Not so rich after all

Saudis feel a lot less perky than they did, say, 20 years ago. For one thing, demography is going against prosperity. Some 60% of the indigenous population is reckoned to be under 20, and some 70% under 30. The population has soared since 1980, the high point in the country's GDP per head, without a commensurate growth in national wealth. Income per person has since fallen, by some accounts, from around $20,000 to less than half of that. Unemployment has soared, though no one can agree on a figure—in a country where, as a leading Saudi banker puts it, “We don't have a tradition of statistics.” The government says 8-9%;other estimates range from 13-30%.

Other causes of dissent are more obviously political. As Saudis become more educated and cosmopolitan, many of them, especially professionals, increasingly resent their country's isolation from the modern world, the power of the clerics to control their social life, and the ability of the royal family to limit their influence in public affairs and to hog the exchequer. The *mutawwain*, the religious police, officially known as the Commission for the Protection of Virtue and the Prevention of Vice, still throw their weight about. Cinemas are still banned, as is music in public places; companies have even been forbidden to play jingles on the telephone when calls are on hold. Alcohol remains banned, in private as well as in public. This year, as usual, any manifestation of St Valentine's Day was expressly forbidden by the authorities as being “pagan Christian”—and some 200 Bangladeshi and Burmese workers were arrested, apparently for drinking and dancing despite the edict.

The internet, the mobile phone and satellite television (technically banned but accessible without interference to a good 80% of the population) are all eroding the authorities' control. But even in the communications ether, the security organs still strive to have their way. By one estimate, some 30,000 websites are blocked. Technically, all sites must be approved.

Newspapers are strictly controlled, and even the more respected ones published abroad (and invariably owned or controlled by members of the Saudi royal family) tend to observe the limits—or risk loss of advertising as well as the freedom to circulate. No Saudi newspaper, for instance, reported the Iraqi invasion of Kuwait in 1991 until five days after the event, presumably under the government's instruction. Last year *The Economist* was banned eight times, for reasons ungiven.

Saudi editors who are considered too liberal (*al-Watan*'s Jamal Khashoggi, for instance) or columnists who cross a line (*Okaz*'s Hussein Shobokshi) are summarily sacked. In a column last year, Mr Shobokshi's offence was to dream that his grown-up daughter, a lawyer, picked him up from the airport after he had won a prize at an international human-rights conference; and that on the way home, they had chatted about voting in the local election and about the finance minister's broadcast on television about the next budget—all things that cannot yet happen.

Public protests remain strictly forbidden. Last October the government said that 271 people in Riyadh had been arrested, of whom 83 were told they would be put on trial, for demonstrating during a human-rights conference organised by the Saudi Arabian Red Crescent, itself an unusual event. A week later, likeminded protesters in Jeddah, Dammam and Hail were similarly dealt with.

For those who flout the law, punishment is usually severe. Yet its application is inconsistent and most trials are held behind closed doors, without counsel for defendants. Amnesty International, which remains barred from the kingdom, has recorded over 1,400 executions since 1980. Some 40 people a year are still publicly beheaded for crimes including drug offences, robbery and rape. Sodomy and sorcery have also, in recent years, earned the ultimate penalty. Saudis—and more often expatriates—are frequently reported to have been flogged for such crimes as selling illicit alcohol, sometimes with as many as 1,000 lashes being inflicted, with 50 or so strokes in a session being administered at intervals of two or three weeks.

Black moving objects

A host of restrictions against women are still in force. With a probable fertility rate of over six children per woman, the religious authorities deem the rightful place for females is home. In public they must be shrouded in the black *abaya*, letting only the face be seen; usually just eyes are visible. They cannot travel without a male chaperone, usually a husband or close relation. They cannot run a business in their own name unless they get permission from a *mahram* (a kind of agent), probably the husband. They cannot marry non-citizens without government permission. Nor can they drive cars—by *fatwa* from on high.

Though they make up more than half of the university intake, they have only 6% of the jobs, and in the workplace (with the exception of hospitals) they are invariably segregated, even, for instance, in newspaper offices or banks. And they are entirely unrepresented in government or in the *majlis al-shura*, the consultative council that is the closest thing to a parliament.

This picture of repression is, however, a lot less bleak than it was. Criminal and commercial laws are gradually being encoded and liberalised. Last year a stream of petitions were graciously accepted by the crown prince from various groups that purported to speak for—among others—Shia Muslims, businessmen and intellectuals of both an Islamist and secular tint, including a number of women. Newspapers, though still looking over their shoulder, have begun to reflect a growing debate about the need for reform. Above all, Saudis are becoming far readier —though wariness persists—to discuss such matters at home and in the workplace. Topics that were taboo—talk of Shias and women's rights, for instance—are entering discourse, at least in professional circles.

At last an open debate has begun

In June Crown Prince Abdullah opened a “national dialogue”, bringing a hundred or so people together to discuss the future in a procedure he is now institutionalising. This month the third such meeting—perhaps including, unprecedentedly, some 30 or so women—will discuss women's issues. The *majlis al-shura* now has three female “advisers”. This year television got its first female presenters. Businesswomen, such as Lubna Olayan, are gaining more serious attention. It is clear that the crown prince wants gradually to bring women into the public arena and realises, besides, that their enforced inability to play a bigger part in the economy is damaging it.

There is talk of some members of both local and provincial councils being directly elected. Ditto the *majlis al-shura*. Many reformers say that accountability and openness are more vital than elections. There is growing demand for full publication of the budget. The *majlis al-shura* is slowly gaining powers, for instance, to question ministers, though not yet with a right to follow up their answers on the spot. Meanwhile, the prospect of partly elected local councils may, if reformers' hopes are fulfilled, uncork the genie of democracy and let the public enter the sphere of decision-making.

For Crown Prince Abdullah, the worry is that by legitimising alternative sources of power, however limited at this stage, he will risk opening the floodgates of democracy and destroy his royal family. Yet it is unlikely that that bastion of wealth and privilege can last much longer in its present state. Gradual economic and political reform is already threatening to alter the status quo dramatically. For example, the government's wish for Saudi Arabia to join the World Trade Organisation will not be achieved without a drastic opening of a pretty closed economy in which the royal family has special privileges to tap into the country's huge natural wealth.

Probably no one outside the royal family knows the precise numbers within it or how power is allotted. (“Those who talk don't know, and those that know don't talk,” applies pretty well to Saudi royal Kremlinology in general.) Estimates of the number of princes vary widely, from around 5,000 to 10,000, with the extended family all told numbering between 20,000 and 27,000, all getting a slice of wealth, with no publication whatever of the amounts. Saudi Arabia still has no personal income tax, for princes or others.

AP

Osama bides his time in the tent

The ones who count for most are the direct descendants—probably now in the high hundreds—of King Abdel Aziz ibn Saud (1880-1953), the founder of the modern kingdom, who had some 44 recognised sons. If King Fahd dies, as he soon may, Crown Prince Abdullah would take over. Next in line is his half-brother Prince Sultan, now 79, who has been defence minister since 1962. Thereafter come more sons of King Abdel Aziz: Prince Nayef, interior minister since 1975, and Prince Salman, the long-time governor of Riyadh province. After that, it gets fuzzy.

There is a hopeful prospect and a gloomy one. In the former, the crown prince, with hard-nosed reformers at his side such as Ghazi al-Gosaibi, the minister for electricity and water, pushes boldly but tactfully ahead towards political, religious and economic pluralism. In the boldest of such schemes, he arranges for the succession to skip a generation and move to a caucus of younger, western-educated princes, who acknowledge that the era of royal unaccountability and virtually unlimited wealth is over and that a constitutional monarchy must gradually emerge, with the *majlis al-shura* becoming the parliament, directly elected, maybe with a self-elected or indirectly-elected assembly of princes (and princesses?) as a senate. The notion of the succession moving down the line to the likes of Prince Nayef, who is utterly loathed by the reformers for his diehard conservatism as well as incompetence, is unbearable to the modernisers.

This far-reaching reformist possibility is widely seen as both Utopian and dangerous. Already there are signs of resistance within the family. Prince Nayef, for one, is hugely powerful: he controls the media and the religious establishment as well as the police. Reformers fear that the long-prevailing tradition of consensus and balance (family unity at all costs has long been a mantra) is making the crown prince hesitate. But they fear, too, that if he moves too fast the conservatives will oust him.

The clergy, heirs to the puritanical Wahhabi strain of Islam with which the house of Saud allied itself two centuries ago, are bound to fight against efforts to liberalise society and, for instance, to give wider rights to the country's 1m-plus Shias, who have only two of the 120 members of the *majlis al-shura* and are still reviled in textbooks, by the Sunni *ulema* (clergy) and by society at large. It should be added, moreover, that very many Saudis sympathise with the conservatives.

Iraq is another reason for royal hesitation. If it settled down and a Shia-dominated government emerged in a federal set-up, many Sunni Saudis would be aghast; for one thing, their own Shias would start demanding a lot more power. But if Iraq descended further into chaos, with al-Qaeda or its allies making it ungovernable, the spill-over across a porous border could spell disaster for the Saudi regime. Either way, the Saudi royals lose.

Where's the Saudi Houdini

Is there a “third way”? Perhaps. The most hopeful sign of compromise, albeit outside the current power base, is that moderate Islamists and secular reformers sound prepared, so far, to work together towards winning greater representation for themselves and greater accountability from the royal rulers. Indeed, it is arguable that the al-Qaeda phenomenon has forced non-violent Islamists and secular gradualists to converge. Both lots, in any case, think the house of Saud must adapt or die.

Is there a Saudi Gorbachev—or could Crown Prince Abdullah become one? Probably not. Besides, he would point out that, though Soviet rule ended more or less peacefully, the Union collapsed and the ruling elite were chased out. Perhaps Spain's General Franco is a more hopeful model. But where is a Saudi Adolfo Suárez, let alone a democracy-loving constitutional monarch à la Juan Carlos. He could be there, among the vast array of princes. But no one seems to have found him yet.

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Muslims in Europe

A growing band of brothers

Mar 4th 2004 | LONDON, MARSEILLES AND PARIS
From The Economist print edition

AP

The continuing debate among European Muslims over western political values

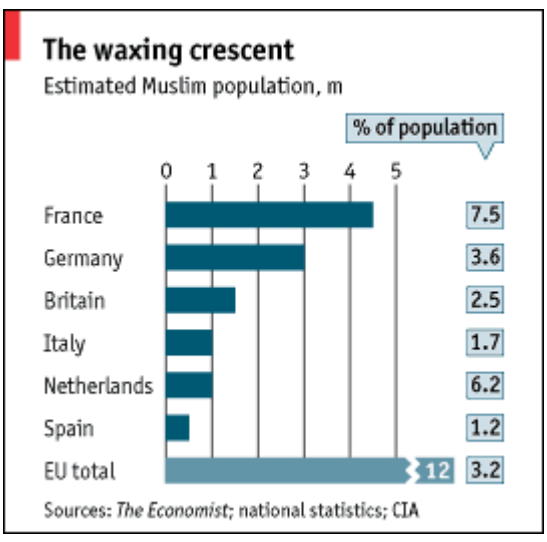
Get article background

WHAT role will Europe's 12m or so Muslims play in the continent's affairs? Most people discern two possibilities. Either European Muslims will integrate seamlessly into their countries' political and economic life; or they will stay on the margins, nursing their rage.

In fact, both things are happening. As German citizens of Turkish origin acquire voting rights and wealth, and leading Muslims become regional governors in France or peers in Britain, there are healthy signs of a community gaining in status and respect. “The great majority of French Muslims are melting successfully into the social mainstream,” comments Soheib Bencheikh, the liberal mufti of Marseilles. But at the other extreme, a handful of ultra-militant preachers are offering moral and even material support to terrorism.

The strongest trend in the politics of European Islam lies somewhere in the middle. A new generation of European-born Muslims is learning to work effectively within their countries' laws and political systems. But it also draws spiritual and ideological inspiration from Islam's Middle Eastern heartland, and cherishes the hope that Islamic rule will prevail over secular government in Muslim countries.

AP



An interesting pointer is the strong effort to dominate European Islam being mounted by sympathisers of the Muslim Brotherhood. This is a grass-roots movement to build an Islamic society from the bottom upwards that was spawned in Egypt in the early 20th century and spread, in the teeth of repression, across the Islamic world. The Brotherhood's principal ideologue is Sheikh Yusuf Qaradawi, a 77-year-old religious teacher, based in Qatar, who enjoys great moral standing in the Islamic diaspora, via his writings, broadcasts and websites. He also wields influence through a more formal channel: the Dublin-based European Council for Fatwa and Research, of which he is president.

This council comprises 32 leading scholars, from Europe and the Middle East, whose self-appointed task is to ponder the dilemmas—moral, personal and political—faced by European Muslims. The issues they consider range from the religious (the posture and frequency of prayer) and the professional (can Muslims be full-time sportsmen?) to the realm of politics (can Muslims take part in local elections?). But they also touch on world affairs. For example the council has said that Jerusalem is Islamic land, and that its occupation by non-Muslims should be resisted by “all means”—and also that suicide bombings in Israel are not subject to the usual Muslim strictures against taking one's own life, or that of non-combatants.

In 2001 European governments rejoiced when Sheikh Qaradawi roundly condemned the terrorist attacks of September 11th. But the scholar makes clear that he feels differently about suicide bombings in the “war zones” of the Middle East. He encourages keen but qualified participation in the western system, with the interests of Islam always in mind.

In the same spirit, Sheikh Suhaib Hasan Ahmed, a council member who runs a school and mosque in London, says it is legitimate for Muslims to be active in secular parties—but only if the parties advance Muslim concerns, such as aid to Islamic education, a change in divorce laws, and easier access to *halal* food. A Muslim politician must oppose his party if it goes against Islam, Sheikh Hasan says.

The reach of Sheikh Qaradawi extends to many different branches of Islam. Many of his council colleagues, such as Sheikh Hasan, are far from being Brotherhood sympathisers. But what about the direct influence exercised by the Muslim Brothers, whose Egyptian founder, Hasan al-Banna, wanted to re-Islamise society, and ultimately the state, by galvanising individuals, families and communities?

In several distinct ways, the legacy of al-Banna is being felt across Europe. One is through Sheikh Qaradawi. Another is through movements that follow the Brotherhood's ideology in a narrower sense, and are bidding to be the loudest Islamic voice in Europe—to the discomfort of other Muslims, who are more moderate or, in a few cases, more extreme.

Ask a resident of Lyons or Marseilles which movement speaks for the Muslim Brothers, and you will be directed to the Union of Islamic Organisations in France (UOIF). This is a well-organised constellation of smaller groups that increasingly dominates the politics of the country's 4.5m Muslims. To the alarm of older Muslim leaders, the UOIF and other tough-talking factions swept the board in last year's elections to local branches of the new French Council for the Muslim Faith.

The presidency of this council remains in the cautious hands of Dalil Boubakeur, rector of the Paris mosque; he is an admirer of French civilisation who laments the “contest of extremism” among his fellow Muslims. But the regional branches are so dominated by the UOIF that a takeover of the entire council is within its grasp. One official who watched the council's establishment comments that “the militants have left Boubakeur in place, but they are biding their time.” Moderate French Muslims think that the government—and especially Nicolas Sarkozy, the interior minister—was naive, at best, in letting pro-Brotherhood groups build such a commanding position. But officials say that drawing Brotherhood supporters into the system has, on balance, been worthwhile. They point out that, because it was co-opted by officialdom, the UOIF was unable to support protests against a ban on Muslim headscarves in public schools and other state institutions.

In Britain, the most vocal exponents of Brotherhood thinking are in the Muslim Association of Britain, which gained prominence last year as a co-organiser of protest marches against the Iraq war. This association is among the constituent groups of the Muslim Council of Britain, a broader body that is valued by the government as an interlocutor. When, as has happened several times, the association is attacked in Parliament for condoning violence in the Middle East, the council leaps to its defence. Yet in Britain, as in France, co-existence between “brothers and others” has not always been easy.

How can an outsider distinguish between different schools of politically active Muslims? One touchstone issue is how Muslims' role in Europe—past, present and future—is conceived. Emollient figures, such as the muftis of Marseilles and Paris, speak of how much their values and those of post-enlightenment Europe have in common; they say Muslims have much to learn from their non-Muslim compatriots. Those who take their cue from the Brotherhood put more emphasis on the ideal of Islamic governance in Muslim countries. This implies that secular democracy, while tolerable in the West, is not a perfect system.

The views of Tariq Ramadan (see article) are an ingenious bid to synthesise the two camps. As he puts it, there are values, such as equal citizenship, accountability or the rule of law, that are reflected (albeit not

yet perfectly) in western democracy—but can also be expressed in ways that are closer to Islam's history and culture. Where Sheikh Qaradawi counsels European Muslims to protect themselves as a minority, Mr Ramadan prefers the language of “equal citizenship”, implying rights and obligations. Nor, he says, should the UOIF be horse-trading with Mr Sarkozy: this compromises their dignity.

Is there any reason why non-Muslims need follow such intra-Islamic arguments? So far only a handful of Muslims have entered European politics, and most have been individuals of Islamic heritage rather than people whose central concern is to promote the faith. But that is changing; at the next British general election, for example, Labour is fielding two Muslim activists in safe seats. The big question is how much Europe will be changed by politicians who play by democratic rules but also live, and see the world, in the light of a faith to which other loyalties are subordinate. The answer may be: quite a lot.

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A Muslim philosopher in Europe

The provoker

Mar 4th 2004 | GENEVA
From The Economist print edition

Tariq Ramadan both inspires and infuriates

HE WROTE his doctoral thesis on Nietzsche, and in early life he was a good footballer. He enjoys adulation among young French Muslims, whether students or slum-dwellers. But many of his fellow francophone philosophers regard him as too outrageous to speak to.

Charming, provocative and litigious, Tariq Ramadan is unique among Europe's Muslim activists. Compared with many rivals, the Swiss theologian's reading of Islam is more devout, and also more insistent on the need for Muslims to integrate in the West. A grandson of the Muslim Brotherhood's founder, he combines orthodoxy with enthusiasm for such causes as the green movement and opposition to global capitalism.

In recent months, he has been at the centre of two controversies. One followed an internet article in which he scolded six fellow intellectuals, five of them Jewish, for promoting ethnically-based values over universal ones. He chided them for condoning Israeli policy and the war on Iraq—and also for blaming anti-Jewish violence on Muslims. In the code of the Paris intelligentsia, this was a deadly punch: one victim, Bernard-Henri Lévy, called the cyber-attack a “nauseating” case of anti-Semitism. Mr Ramadan is equally indignant in self-defence. He has spent years warning francophone Muslims against anti-Jewish prejudice, he insists.

Another storm followed his call, in a debate with France's interior minister, Nicolas Sarkozy, for a “moratorium” on the stoning of adulterers. As Mr Sarkozy argued, this suggested that stoning could resume after a decent interval. Mr Ramadan insists that he wants a total, open-ended cessation of traditional punishments, corporal or capital—but the case for this should be made in Islam's terms. “These penalties are in the texts, and if you tell people to remove them, they won't listen. But ask them whether such penalties, as now enforced, promote equality and freedom, Islam's ideals, and they agree we must develop our understanding of the texts.”

His latest book* offers a similar mix of orthodox and radical ideas, mingling social activism, religious tolerance and feminism with close adherence to Muslim tradition. What will Anglo-Saxons make of that? He may soon spend over half his time in America, where Notre Dame University in Indiana has offered him a job. His reception there promises to be a lively one.

* “Western Muslims and the Future of Islam”, by Tariq Ramadan. Oxford University Press, £20.00 or $29.95

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Germany's president

Political partying

Mar 4th 2004 | BERLIN
From The Economist print edition

Why it has taken so long to fill a ceremonial post

CHOOSING Germany's federal president ought to be easy. The head of state has no real power, and is chosen indirectly every five years by a federal convention that has no other function. Yet finding the right candidate has often proved hard. This time, the opposition has been quarrelling for months over who should succeed the (Social Democrat) president, Johannes Rau, in May. Conservatives and liberals have been trying to agree a joint candidate—who should win, as they hold a majority in the federal convention. On March 4th the parties finally agreed to nominate Horst Köhler, a Christian Democrat who is boss of the International Monetary Fund.

Being Germany's federal president is not such an easy job. The president is supposed to be a monarch of sorts, and a force for social and political cohesion. But lacking royal legitimacy and real power, a president must use the bully pulpit to be effective. So a president's success is measured by the quality of his speeches. Theodor Heuss, the first president, was considered a master, who spoke often about the Nazi past. His successor, Heinrich Lübke, was a failure (one speech in Africa began “ladies and gentlemen, dear negroes”).

Yet it is indirect election that makes the selection process most arduous, because it becomes a political power game. The game has been messier this time, because on its outcome has hung the career of all three opposition leaders: Angela Merkel, Edmund Stoiber and Guido Westerwelle, the bosses respectively of the Christian Democrats, of Bavaria's Christian Social Union and of the Free Democrats.

If Mrs Merkel had let a Free Democrat through, her chances of being opposition candidate for chancellor in 2006 would have been hit. Mr Stoiber wanted to avoid being a candidate himself, because he wants another shot at the chancellorship (he lost in 2002). And Mr Westerwelle was fighting for political survival. He might have quit had he not persuaded the Christian Democrats to go along with, at least, a liberal conservative. A joint opposition candidate needs Free Democratic votes.

The wheeling and dealing has made some worry that the office has been permanently sullied by party politics. Matters were further complicated by the elections in Hamburg on February 29th. The Christian Democrats won an absolute majority in Hamburg's parliament, and the Free Democrats failed to get enough votes even to get in (as did the right-wing populists).

This week, the news of the chances of Wolfgang Schäuble, a former chairman of the Christian Democrats who was widely considered the best candidate, was changing almost hourly. But in the end, the conservatives caved in to the Free Democrats' refusal to back him. For a day, they toyed with Annette Schavan, a culture minister from Baden-Württemberg, who would have been the first female president. But in the end they settled on Mr Köhler, a less weighty figure than Mr Schäuble but one who is acceptable to the Free Democrats. Perhaps, next time, Germany should elect its president directly instead.

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Russia's new prime minister

Mr Da

Mar 4th 2004 | MOSCOW
From The Economist print edition

Vladimir Putin opts for direct rule

EPA

Fradkov smiles like Lenin

"MIKHAIL WHO?" was the universal response when Vladimir Putin chose Mikhail Fradkov as prime minister this week. After the president's dismissal of Mikhail Kasyanov last week, six days of feverish speculation had thrown up the name of every conceivable successor. Mr Fradkov, it seemed, was inconceivable.

Observers had hoped that the appointment would offer clues to Mr Putin's priorities for his second presidential term, after his expected re-election on March 14th. A *silovik* with a military or security-services background would mean more state intervention; a liberal would push economic and administrative reforms.

Now Mr Putin seems to have picked the man most likely to keep everybody guessing. A 53-year-old of prototypical Soviet-bureaucrat appearance, Mr Fradkov was Russia's envoy to the European Union. In that job he rarely made a public comment, even during a row over a critical European Commission report on relations with Russia. Behind him stretches a humdrum career including stints as trade minister and head of the tax police. As far as anybody knows, he is not a *silovik*; but he also has no ties to business "oligarchs", as Mr Kasyanov did, nor to any other power clan.

Olga Kryshtanovskaya, a sociologist who studies the Russian elites, says Mr Fradkov fits Mr Putin's bill perfectly. He can, she says, be considered a "hidden *silovik*", who came to (modest) prominence when the defence minister and arch-*silovik*, Sergei Ivanov, brought him into Russia's security council in 2000. Yet he has experience of economic issues and of working in the West (his biography says he speaks English and Spanish). Above all, he is "modest, unremarkable, not a challenger for power." In short, a yes-man, chosen so that Mr Putin can set his own priorities. But what will Mr Fradkov say *da* to, and how well will he do it?

He may turn out to be the instrument for letting Mr Putin wield both his interventionist and his reformist instincts. Mr Fradkov's time in the tax police gives him the right shade of anti-oligarchism; he is said to have helped put together the tax-evasion case against Yukos, an oil company that has been under a barrage of investigation since last summer. (This week the tax ministry also accused Sibneft, which merged with Yukos in the autumn, of evading $1 billion in taxes for 2000-01.) One of Mr Putin's plans is to extract more revenues from the natural-resource firms owned by Russia's richest men.

Yet Mr Fradkov also gave a pro-reform signal by choosing (or agreeing to choose) Alexander Zhukov, an economist who heads parliament's budget committee and is seen as a liberal, as his deputy. He hinted that there might be only one other deputy prime minister, instead of five, and talked of restructuring ministries.

Five years ago, Mr Putin was himself plucked from relative obscurity to become prime minister, and later president. Boris Yeltsin chose him for his modesty, low profile, loyalty and lack of obvious ambition. Few expect Mr Fradkov to be the next Mr Putin. But Russia is full of surprises.

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Italy's Mafia

A capo's annual report

Mar 4th 2004 | BAGHERIA, WESTERN SICILY
From The Economist print edition

How the Boss of Bosses might report the Mafia's revival

Signore, signori

I am pleased to report another year of progress for your—that is, our—corporation. Significant milestones included my 80th birthday, the 40th anniversary of my decision to go on the run and the tenth anniversary of the arrest of my predecessor, Salvatore “Shorty” Riina. It is a good moment to look back at developments since his “early retirement”. Some people say that Shorty overreached himself in taking on the Italian state, killing judges and bombing the mainland. They say, if only the authorities had caught up with Shorty earlier, we'd have been saved a lot of trouble. But I say: “To err is human; to forgive, divine”.

The pillars of our policy since Shorty's arrest have been a lower media profile and renewed concentration on core businesses. What we do best is to sell insurance (from ourselves). I decided to lower premiums to raise market share. Ten years on, demand for our discreetly, if persuasively, marketed “unrefusable offers” has never been stronger. The same can be said of our public-works consultancy, which has striven to achieve full vertical integration, taking profits at every level. We have curbed foreign activities, but profits from sales of drugs and arms have held up well.

It is in the nature of our business that there is vigorous—indeed homicidal—rivalry between local offices. I made it a priority to minimise needless disputes. The results can be seen in a media profile that would suit a plumbing-accessories manufacturer. In 2003 *La Stampa* used the words *Cosa Nostra* 139 times. Ten years earlier, the figure was five times as high. The aim of my “strategy of submersion” was chiefly to lull our opponents into a false sense of security, so improving the business environment for our future growth. As evidence of our success, I note that the Italian parliament's anti-Mafia commission has not visited Palermo in the past three years.

The government of Silvio Berlusconi, whose Forza Italia party won all 61 seats in Sicily in 2001, has not, regrettably, fulfilled all the high hopes we had for it. It has not repealed the strict “involuntary vacation” regime for many of our employees. However, the prime minister, who has problems of his own with the law, has made certain changes that benefit us. Our treasury and acquisitions departments report that it is far easier to launder profits and set up bogus corporate vehicles now that the government has decriminalised false accounting. And Mr Berlusconi's hostile attitude has helped to undermine the judiciary, not least among any of our employees who might be tempted to betray our secrets.

Going forward, we face challenges. One is to find a way to profit from EU-funded contracts that have conditions attached seeking to block our involvement. Another is our excessive dependence on the Calabrian '*Ndrangheta* for wholesale cocaine supplies. But the biggest test of all is to maintain our brand's reputation. Most people know that Sicily's Mafia is the real Mafia. But our low profile could yet lull potential customers into thinking we are harmless. If the staff lose the habit of murdering and torturing, they might even be proved right. Your board is working on solutions to this problem. Meanwhile, healthy cashflow, negligible publicity and rising apathy all give hope of a prosperous future.

As in previous years, we shall not be making donations to charity.

Bernardo Provenzano

Boss of Bosses

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Charlemagne

Europe's candidate for president

Mar 4th 2004
From The Economist print edition

Why Europeans are rooting for John Kerry

AS JOHN KERRY girds himself for the presidential fight, he is being cheered on from over the water. A picture of the junior senator from Massachusetts recently adorned the cover of *Le Nouvel Observateur*, a left-wing French magazine, under the title “The man who can beat Bush”. Since, according to a recent poll, only 6% of Europeans strongly approve of George Bush's handling of foreign policy, that is recommendation enough.

But Mr Kerry also has family ties that make him so beguiling to Europeans. His grandfather, it transpires, came from a tiny Czech village. His first cousin, Brice Lalonde, served as environment minister in a French Socialist government in 1988-92. Mr Lalonde told the French press that he recently saw his cousin, and talked fondly of shared childhood holidays in Brittany. He commented in *Libération* that “our mothers were sisters. But I don't want to damage him, because you know that at the moment it is better not to appear too French in the United States.”

Quite so. At a recent Washington breakfast, Tom DeLay, the Republican majority leader in the House of Representatives, greeted guests with the words: “Good morning, or *bonjour* as John Kerry would say.” The senator is indeed reportedly fluent in French, and is even said to have chatted up Teresa Heinz, now his wife, in the language. He can also trot out phrases in other European languages. The correspondent for *Stern*, a German magazine, noted approvingly that Mr Kerry had not only expressed deep concern to him about the state of American-European relations, but done it in German, saying: “I am really concerned. *Seien Sie sicher*.”

The flattering effect that this has on Europeans should not be underestimated. It grates deeply that Mr Bush appears neither to know nor to care much about the old continent. By contrast Mr Kerry, who went to a Swiss boarding-school while his father was a diplomat in Berlin, is seen as a throwback to a more sophisticated, Europhile era in which the American elite naturally looked across the Atlantic. As *Stern* rhapsodised to its readers, “Bush quotes the Bible, Kerry Pablo Neruda. Bush likes local novels, Kerry loves Shakespeare. While Bush doesn't read the newspaper and is proud of it, Kerry reads *Le Monde*.” As well as wrapping up the French, German and Swiss votes, Mr Kerry would also run strongly in Portugal, courtesy of his wife, who was born in the Portuguese colony of Mozambique.

Naturally there is also a political element to the Europeans' Kerryphilia. The standard phrase among those who rail against American foreign policy these days is “I'm not anti-American, I'm anti-Bush.” This division between the American people and their elected leader is a little too convenient. But it is true that Republican presidents tend to emphasise the aspects of American life that are most alien to the European elite: religion, guns, militarism, and hostility to the welfare state and the green lobby. By contrast, Mr Kerry is sound on two hot-button issues dear to Europeans: the Kyoto treaty on climate change, and the death penalty. And while Mr Kerry may have voted for war with Iraq, most Europeans assume that he would have been less gung-ho about rushing ahead without a broader international coalition. All this means, in the words of Thomas Klau, a columnist for *FT Deutschland*, that Mr Kerry is “the dream candidate for the old world”.

European journalists may have no problem giving voice to their longing for an end to the Bush presidency. But European political leaders must be more cautious. Over the past couple of months Germany and France have made a concerted effort to rebuild relations with the Americans. Gerhard Schröder, the German chancellor, has just completed a trip to Washington that was designed to demonstrate that his long quarrel with Mr Bush was over. This week French and American troops launched a joint operation to stabilise Haiti, an event hailed in Paris as marking a reconciliation between the two countries.

As for Mr Bush, although his campaign strategists may have fun with Mr Kerry's French connections, he will want to be careful about exposing himself to Mr Kerry's charge that he has alienated the European allies. All sides are likely to use the 60th anniversary commemorations of the D-Day landings on June 6th as a photo-opportunity to demonstrate that ties between the United States and Europe are back on a sure footing.

The enduring Atlantic divide

Besides, whoever is in the White House, tensions between European and American approaches to the world seem sure to persist. The heyday of Atlanticism came to a close with the end of the cold war. The overriding concern for America now is the stabilisation of the “Greater Middle East”. And for all the hopeful talk, on both sides of the Atlantic, that this might be a new project on which to rebuild American-European relations, the reality is that attitudes and priorities will remain different.

Thus, polls suggest that Americans are far more sympathetic to Israel than Europeans and also more open to the use of military force. Some Europeans complain that American policymakers, preoccupied by the Middle East, take a cavalier approach to some extremely sensitive issues, such as Turkish membership of the European Union. One German analyst groans that “as far as the Americans are concerned, the discussion over whether Turkey should join the EU is already over. Now they want us to accept Israel, Palestine and Georgia.”

Were John Kerry to win the White House in November, such differences would remain. Indeed in some areas, such as trade, the quarrels between the two sides could get worse: Mr Bush has been bad enough, but Mr Kerry is deploying some alarmingly protectionist language in his campaign. The United States would remain preoccupied by the war on terror, pro-Israeli and willing to use its military strength unilaterally. Mr Kerry might explain American views more tactfully than Mr Bush. He might even do it in French. But transatlantic tensions would endure.

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Correction: Mikhail Saakashvili and Viktor Yushchenko

Mar 4th 2004
From The Economist print edition

In "Doing it his way" (February 7th), we mistakenly said that Mikhail Saakashvili, Georgia's president, and Viktor Yushchenko, Ukraine's opposition leader, had been at college together. This is incorrect, although Mr Saakashvili did take a degree at Kiev University. Sorry.

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Obesity

Fat of the land

Mar 4th 2004
From The Economist print edition

The government worries that it should do something to change the way people eat. But diets are already changing

GIVEN mankind's need to fret, it is not surprising that the diseases of prosperity—stress, depression and, increasingly, obesity—get a lot of play in Britain these days.

On March 3rd John Reid, the health secretary, announced a three-month public consultation about the nation's health: in the current mood, that is likely to focus on obesity. Last week, a report on public health commissioned by the government cited obesity among its main worries; last month Tony Blair's strategy unit floated the idea of a “fat tax” on foods that fuel obesity; and last year, the Food Standards Agency, the industry regulator, advocated a ban on advertising junk food to children.

Yet the government swiftly swatted away the idea of a fat tax, and Tessa Jowell, the culture secretary, has said that she is sceptical about an advertising ban. Mr Reid says the government wants to be neither a “nanny state” nor a “Pontius Pilate state which washes its hands of its citizens' health”.

Why this ambivalence? Not because of doubts that obesity is a serious problem. It increases the risk of diabetes, heart disease and cancer. Rather, because it is not clear that the government can do much about it. There's no evidence that making fatty foods more expensive would put people off them; and in Sweden, where advertising to minors is already banned, children are as porky as they are in any comparable country.

What's more, it is not obvious that the problem will worsen. Shoppers' behaviour suggests the opposite. It is not just the flight from carbohydrates prompted by the Atkins diet; there is a broader shift going on. Britain, the world's biggest chocolate-eater, seems to be going off the stuff. In the four years to 2002, sales of chocolate in Britain fell every year: 2% by volume and 7% by value over the period. Last month, the new boss of Nestlé Rowntree, Chris White, described it as “a business in crisis”. (The company says his remarks were “taken out of context” and denies there is a crisis, but admits that sales of KitKat, its biggest brand, fell by 2% in 2003.)

Companies are edging away from fattening foods. Todd Stitzer, chief executive of Cadbury Schweppes, Britain's biggest producer of fattening stuff, says that five years ago, chocolate made up 80% of sales. That's down to a half. Five years ago 85% of drinks sales were sweet, fizzy stuff. That's down to 56%. The rest is mostly juice. Diet drinks—which make up a third of the sales of fizzy drinks—are growing at 5% a year, while sales of the fattening stuff are static.

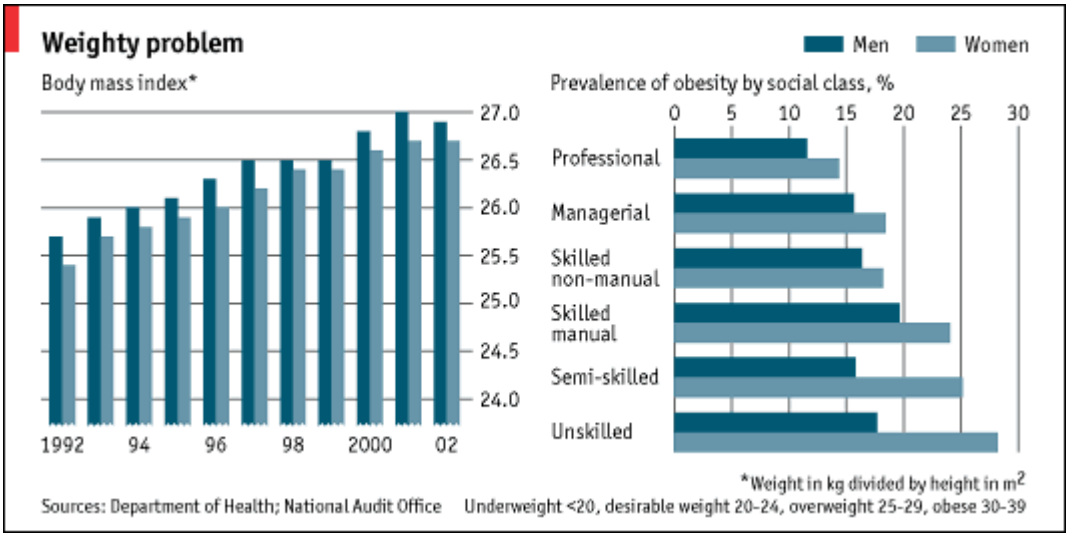
Supermarkets say that people are buying healthier food. According to Lucy Neville-Rolfe, Tesco's director of corporate affairs, its Healthy Living (lower calorie) range grew by 12% in 2003, twice the growth in overall sales. Sales of fruit and vegetables are growing faster than overall sales, too. That may be partly because fresh produce is getting more various, more is available all year round and better supply boosts demand. Five years ago Tesco stocked six or seven varieties of tomato. Now it stocks 15.

The spread of big supermarkets, which offer better produce than the mouldy stuff at the corner shop, may improve diets. A study carried out by the University of Southampton on a big new supermarket in a poor part of Leeds concluded that after it opened, two-thirds of those with the worst diets ate more fruit and vegetables.

Cafés and restaurants report an increase in healthy eating, too. Pret A Manger, a sandwich chain, says that sales of salads grew by 63% last year, compared with 6% overall sales growth. McDonalds, which introduced fruit salad a year ago, has sold 10m portions since.

But it isn't just eating too much fatty stuff that makes people fat. It's indolence, too. That may be changing. Gym membership figures suggest that more Britons at least intend to get off their sofas. According to Mintel, a market-research company, there were 3.8m members of private gyms last year, up from 2.2m in 1998.

So why isn't all this virtue showing up in the figures? Maybe it is starting to. The average man got thinner in 2002, the most recent available year (see chart), for the first time since body-mass-index records began; women's BMI was static. One year, of course, does not make a trend; but a fall in Americans' weight last year, also for the first time, supports the idea that something is changing in the rich world's fattest countries.



So does the fact that fat is a class issue (see chart). Where the rich lead, the poor tend to follow—partly because the poor get richer over time, and partly because health messages tend to reach the better-educated first and the worse-educated later. That's what has been happening with smoking, a habit the rich gave up years ago and the poor are now stubbing out too.

Campaigners for the fat tax point out that, without hefty government intervention, through taxes and public information campaigns, it is unlikely that smoking would have gone into such a decline. But that may not be the case with food. Consumers are assailed every day by messages from companies telling them to get thin. Peer pressure is likely to have more impact on teenagers than any amount of finger-wagging from ministers. Maybe the government's interest itself suggests that a corner has been turned. As Ms Neville-Rolfe, a former civil servant, says, “Government often gets on to issues at the point at which they're being solved.”

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Regulating alternative medicine

Quacks unite!

Mar 4th 2004
From The Economist print edition

Getting organised, and turning respectable

ALTERNATIVE medicine is fast becoming so mainstream that its moniker looks unreliable. Full acceptance came closer on March 2nd, when the government unveiled a plan to set up a complementary medical council. This will provide protection of title—so only paid-up herbalists will be able to call themselves "herbal practitioners", for example. It will also insist on standards of training and conduct, as well as hounding cowboys who operate outside the system.

This is a marked change from the 1970s and 1980s, when alternative medicine thrust a fistful of ginseng up the nose of the medical establishment. Practitioners, many of them female and thinly educated, annoyed doctors by claiming to be able to cure the sort of chronic, non-fatal conditions that baffled medical science. Nobody believed them—except the public, who gratefully (or gullibly, depending on your perspective) opened their wallets.

In double-blind clinical trials, herbs and watery medicines rarely perform well. But as Dr David Peters of the Marylebone Health Centre points out, there is a big difference between what can be proven to work and what actually works. Snake oil often cures, if both patient and practitioner trust in it; so do long conversations with healers, of the sort that general practitioners (GPs) have little time for. People with tricky conditions like back pain and irritable bowel syndrome are especially likely to benefit from the flaky stuff.

Recognising this, more than half of all GPs now recommend alternative therapies to patients (some simply stick the acupuncture needles in themselves). Primary-care trusts looking to reduce their drug bills are also going alternative. According to the School of Integrated Health at the University of Westminster, complementary therapies are now provided free or at minimal cost in at least 40% of areas.

Despite these advances, and the high-profile advocacy of Prince Charles, practitioners of complementary medicine continue to feel edged out of mainstream medicine. The more established ones are also worried about competition from another direction. Upstart clinics, often staffed by Chinese immigrants, are springing up in high streets and shopping malls. Horrifyingly, many of these clinics are honest about wanting to make a profit.

Marking themselves off from such operators will prove expensive, though. Any club set up by complementary healers is likely to be small—and the more determined it is to exclude cowboys, the smaller it will have to be. That will make joining expensive. Membership in the 1,950-strong General Chiropractic Council currently costs £1,000 a year, compared with £290 for the General Medical Council and £20 for the Nursing and Midwifery Council, which has 650,000 members.

Will the cost be worth it, either for practitioners or the public? Certainly, raising barriers to entry may weed out the most dilettantish healers. But it may also get rid of some of the best. Can Chen, who runs a clinic in central Birmingham, points out that she (like many other recent arrivals) has qualifications and experience in both western and Chinese medicine—but because they were earned in China, they may not meet any new requirement.

At worst, regulation may discourage the sort of eclectic approach that has enabled alternative practitioners to mount such a strong challenge to conventional medicine over the past three decades. For herbalists and acupuncturists, the trick will be to turn respectable without becoming inflexible. If they fail, it will be the crystal therapists' turn to shine.

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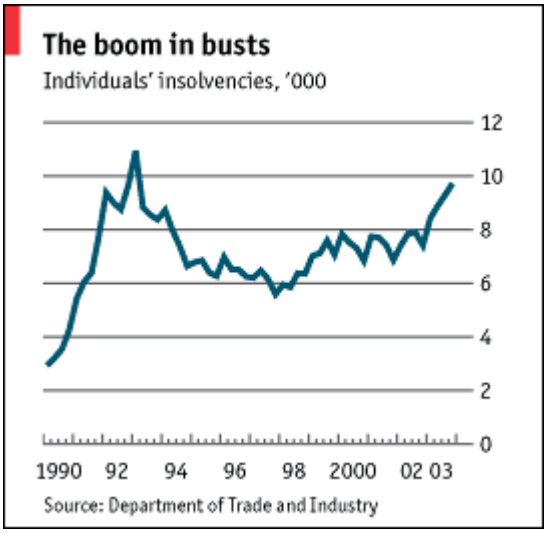
Bankruptcy

Forgive and forget?

Mar 4th 2004
From The Economist print edition

A gentler approach to personal debt



GOING bust is not what it used to be. Britain's bankruptcy laws, first crafted in 1542 by Henry VIII, made criminals of the destitute, and offered the death penalty as a way to focus debtors' minds. Later changes made the laws milder: you might only lose an ear. Nowadays, life and limb are spared, but bankruptcy can last for several years, shred your reputation, and even prevent you from standing in elections or serving as a company director.

Quite right too, say those with traditional distaste for the spendthrift. But on April 1st, going bust will become a bit easier, thanks to Gordon Brown, the chancellor of the exchequer, who thinks that punishing bankrupts makes people fear taking risks. Reducing the cost of failure should stoke entrepreneurship, he reckons.

In America, bankruptcy is a battle-honour among businessmen, and fairly painless for lesser folk who can't pay medical or even credit-card bills. Already in Britain, firms have been using American-style debt restructurings to avoid closing. Now, it is everyman's turn. Sole traders and overstretched consumers will be able to take advantage of similar leniency.

Even before the new law, bankruptcy rates have been rising, fuelled by a rapid rise in consumer debt, especially credit card borrowing and personal loans, which have reached record levels. Recent low interest rates as well as more aggressive marketing by lenders have spurred the rise in debt. The Financial Services Authority, a regulator, reckons some 6m households are in trouble. As interest rates rise, partly in an effort to slow consumer borrowing, insolvencies are likely to climb further. And some households may just be waiting for April 1st before sorting out their debt troubles.

Under current law, bankrupts must wait for three years before their debts are “discharged”, or erased. The new law will reduce this to one year at most. Credit-card companies fear that their customers—who pay stonking interest rates—may cut their losses by going bust. Charles Krulak, a gruff former marine general who heads the London headquarters of MBNA, an American-owned outfit that is one of Britain's biggest credit-card issuers, has criticised the new procedures as too forgiving.

Being more forgiving is precisely the point of the law. But the government is trying hard to avoid the impression that it will encourage the feckless into a spending spree. The new law will distinguish between “no-fault” bankrupts and those who have got into trouble simply by living beyond their means. If you fall into the latter category, you might be required to make financial amends for up to 15 years.

Indeed, the new approach hardly leaves bankrupts flush with spare cash; it will reduce them to penury, even as it gives them a second chance more speedily. Whether it will reduce the stigma of bankruptcy—one of the original goals—is uncertain. Writing new laws is easier than changing people's minds.

Moreover, not all debts will be voided. You can escape unpaid taxes but not child support or fines, or—when the government changes the law later this year—student loans. Even in the kinder, enlightened Britain of Mr Brown, some things will remain unforgiven.

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Broadcasting

Not enough Cookes

Mar 4th 2004
From The Economist print edition

Britain's best-known radio voice hangs up his headphones

ALISTAIR COOKE delighted listeners just as he frustrated his BBC bosses, who thought his weekly 15-minute talks were well past their prime in both form and content. But now his fans and critics will have to turn their attention elsewhere. After 2,869 editions of “Letter from America”, on every important subject in post-war history, Mr Cooke, aged 95, says he is too old to continue.

Both the old world and the new claimed Mr Cooke for their own. His transatlantic accent left Americans thinking he was British, and vice versa. But in most ways—not least his reinvention of himself—he was more American than British. The son of an iron-fitter, he was born in Salford and brought up in his parents' guesthouse in Blackpool. He got a scholarship to Cambridge, then a fellowship in theatre to Yale and Harvard, swapped Alfred for Alistair, became an aesthete, an American citizen and a confidant of Charlie Chaplin's.

Mr Cooke's talks, which began in 1946 by describing his return to America by sea with 2,000 GI brides, exemplified the trinity of journalistic virtues: factually correct, well thought-out and elegantly expressed. They were a blast of nostalgic thoughtfulness from a more leisurely age. Admittedly, they became patchy towards the end. The reporting zeal that had enabled him to witness such events as Robert Kennedy's assassination was shackled by age. There were too many anecdotes, usually but not always interesting. His views on race and sex seemed gratingly old-fashioned to some.

To both British and American fans, he represented what was best about the BBC, but not much of that is left. The days of unhurried radio talks and graceful prose are, sadly, gone. Replacing him is unlikely to work. Mr Cooke survived into the era of the sound bite because of his stature. Any lesser figure trying to do what he did would stick out more like a sore thumb than a broadcasting giant.

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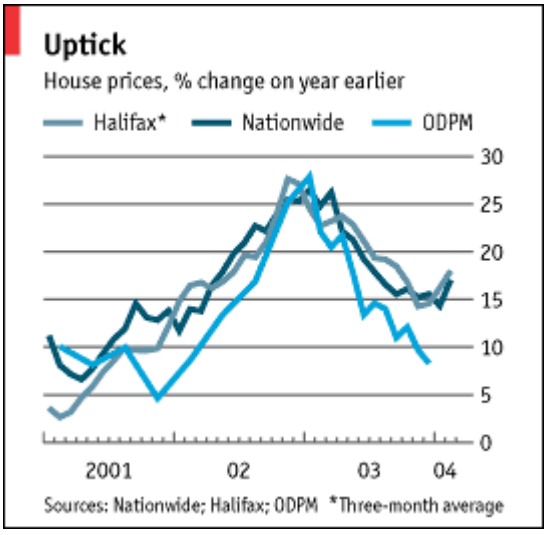
House prices

Irrepressible

Mar 4th 2004
From The Economist print edition

To the Bank of England's alarm, house-price inflation has risen



THE Bank of England has lectured and hectored Britain's homebuyers. It has administered a half-point increase in interest rates over the past four months. To no avail: house-price inflation is accelerating again. This suggests that homebuyers should treat the Bank's decision to keep rates on hold on March 4th as a temporary reprieve.

According to the Halifax bank, house prices rose in February by 1.6%. The increase means that the annual rate, which had fallen from 25% at the start of 2003 to 14% in November has picked up again to 18%. The Nationwide building society echoes this finding. It also reported a sharp monthly increase in February, raising its annual rate to 17%.

Both the Halifax and the Nationwide indices are probably exaggerating the scale of house-price inflation because they measure the price of a typical house. This gives an equal weight to a cheap property in the north and an expensive property in the south, which means that they are picking up the impact of the northern catch-up in house-price inflation. By contrast, the official index, which measures the average price of houses and therefore weights price changes by the value of homes, is being affected more by the slowdown in the south. According to this index, from the Office of the Deputy Prime Minister, annual house-price inflation fell from 28% at the start of 2003 to 8% in December.

The state of the housing market is likely to have been high on the agenda when the Bank of England's monetary-policy committee met this week. The MPC is mainly concerned about the value-weighted change in house-prices since this is the best guide to changes in housing wealth which in turn feed through to consumer spending. However, the committee will have drawn scant comfort from the more subdued picture painted by the official index since it is two months out of date. Its worry is that the Halifax and the Nationwide are signalling a bounce-back in the housing market.

This is the last thing the Bank needs. It is expecting the economy to grow by almost 3.5% this year, well above the trend rate of around 2.5%. That growth forecast assumes a steady deceleration in house-price inflation, which the MPC expects to reach zero in 2005. Faster house-price inflation will mean more consumer spending than expected, and even faster growth.

Quite apart from the prospects for growth, the Bank will be concerned that a bigger house-price boom will lead to a sharper subsequent bust which could hurt the economy. Already, by almost any measure, house prices are considerably over-valued. Indeed some economic forecasters, such as Roger Bootle of Capital Economics, now think that the MPC has the housing market in its sights as much as the inflation target. Danny Gabay, an economist with Fathom Financial Consulting, says that the renewed strength of the housing market gives “added urgency” to the need to raise interest rates.

One thing holding the Bank back has been the strength of sterling, which is adding to the monetary squeeze. But the pound lost ground this week to a resurgent dollar. All this suggests that interest rates will rise again—maybe as early as April.

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Universities and the EU

Capital flows

Mar 4th 2004
From The Economist print edition

More EU students for British universities after enlargement will mean more competition for places and more subsidy from taxpayers

NASTY, nice or very expensive. What you make of the effect of European Union (EU) enlargement on British higher education depends on who you are.

At present there are nearly 50,000 full-time EU undergraduates in Britain. Only 12,000 Britons, including post-graduate and short-term exchange students, go to universities in other EU countries. Unlike most foreigners, who pay full fees, EU undergraduates pay only £1,125 a year (less if they're poor). Adding in the subsidy paid to universities by the Treasury, that costs the taxpayer an average of £3,750 for each EU undergraduate—or £188m altogether. After May 1st, the same deal will apply to eight ex-communist countries of eastern Europe, plus Malta and Cyprus.

From the universities' point of view, that's good. Students from the existing EU cost the same to teach, but are “disproportionately able and motivated”, says the head of one Oxford college. When the pool of potential applicants widens to include Estonians, Poles, Hungarians and the like, there will be even more talented students to choose from. The east Europeans tend to be particularly strong in the maths skills needed for science and engineering courses, where British students are particularly weak.

According to a report from the Higher Education Policy Institute (HEPI), a thinktank, to be published on March 6th, there will be between 12,000 and 19,000 extra undergraduates from the new member countries by 2010. That will stiffen the competition to get into the best universities: the brightest students from the new EU countries will be the most likely to want to study abroad. If the cost is much the same everywhere, they will be most inclined to choose places like Oxford, Cambridge and the LSE over less famous outfits. Depending on how many new places the government creates by then, the competition may be tougher at middling universities too.

That alone will prompt squawks of protest. But the real costs to the government could be a lot higher. When new tuition fees of up to £3,000 take effect in 2006, all EU students will be eligible to borrow this amount through the state-run student loan scheme. But collecting a debt of £10,000-odd from someone who has returned to, say, Slovakia, may be quite tricky. The government says it is working on bilateral agreements with student-loan outfits in other countries where they exist; if necessary it hopes to recover money through tax systems abroad. It regards this as feasible by 2010, when the first repayments become due. Some observers think this wildly optimistic.

The biggest danger, though, is in a case currently before the European Court of Justice, where a French citizen, Dany Bidar, is arguing that EU students should be entitled to the same grants and loans paid to Brits with low incomes. These will mushroom after 2006 to make the new tuition fees more palatable. The British government argues that aid to poor students is a social benefit, not an educational one. The court tends to favour arguments based on equal treatment of all EU citizens over those based on national sovereignty. Judgment is expected by early 2005.

Given how poor the new EU countries are, if Britain loses, at least half, probably more, of the new applicants would be eligible for the money intended for disadvantaged Brits. The combined grant, maintenance loan and tuition-fee loan for a poor student studying in London will be around £10,000 a year by 2008.

A grim picture, then? Not a bit of it, argues Libby Aston, author of the HEPI report. For a start, EU students spend on average £7,500 a year when they are here; those that work pay taxes on their income. Around a quarter stay on and get a job after graduating. The tax they pay will more than make

up for the taxpayer-subsidised tuition and loans, she argues.

Ms Aston's view chimes with top policymakers' thinking. They want Britain to become the “higher education capital of Europe”. But that will not come free. And it will make it even harder for the dimmer children of the British middle classes to have what they have come to see as their birthright—three subsidised years at a well-known university.

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Offshoring

A lift from India

Mar 4th 2004
From The Economist print edition

How offshoring gives British companies an advantage over the competition

ONE of the reasons why the trade-unionists of Amicus have nominated David Prosser, chief executive of life insurers Legal & General, Britain's best boss is that he has promised not to send jobs abroad. L&G'S shareholders may be less happy: its rivals, and many other companies, are rushing to buy their service work offshore, to their competitive advantage.

No solid British figures exist, but companies in India—by far the biggest supplier—reckon that business process outsourcing (BPO) may bring that country $4 billion from abroad this year, a rise of more than 50%. Over half of that will be from America, but Britain's share will be at least one-tenth; the equivalent of some 20,000 lowish-paid jobs.

Just how much companies save by offshoring work will depend on how good they are at doing it. Stelios Haji-Ioannou says his easyGroup's hire-car arm actually makes money by farming out customer calls, since the customer pays 60p a minute, more than his firm pays the Indian call centre. But relating to Bangalore is not like handling the call centre down the corridor, even if the Indians concerned are your own employees—as, increasingly, they often are not. The more usual call-centre client can look to save 30-40%.

For more complex offshoring, a round figure might be 25-30%: a worthwhile saving if IT, as it well may, makes up a tenth of your overall costs. IT costs one British utility about 20% less, per customer, than comparable Dutch ones. But calculations of savings are necessarily imprecise, because they do not come just from low Indian wages. Like any consultants, the three big Indian companies selling these services—Wipro, Tata Consultancy Services (TCS) and slightly smaller Infosys—are offering better solutions, not just cheapness.

These are big firms: when the figures are out, their combined 2003-04 turnover will be $3.5 billion, a rise of one-third. Their lists of British clients are long and distinguished: Thames Water, United Utilities, Sainsbury, BT, BA, P&O, National Grid, Barclays, Prudential and others in finance, and many more. Wipro has worked for years with Thames Water; TCS is part of a consortium that has just signed up to sort out some National Health Service IT; Infosys is to help improve a BT system for getting its men-in-the-field to the right place at the right time.

British firms are notably keener on offshoring than are those in other EU countries. The Indian consultants have offices across Europe. Yet TCS gets nearly 20% of its work from Britain, double what it gets from the rest of Europe put together. Wipro's trade is more balanced: 12% British, around 20% from other Europeans. But that is still way out of kilter: Britain is only one-sixth of the west European economy.

Why don't continental firms too rush into offshoring? Language is one reason. A British firm, ebookers, imports European students to enable it to offer services from India in seven different languages. Few Indians speak German or French (and overseas French territories, or even North Africa, lack the skills). Lufthansa has German-speaking call-centres in South Africa and Turkey.

There are wider reasons too. One is cultural. Indian lawyers—you can hire them too—work not just in English but in an Anglo-American tradition. So do accountants, financial analysts, even the six financial journalists who will soon be covering American companies for Reuters from Bangalore. And Britain is simply further down the road. Its call centres in the south migrated first to cheaper Scotland and Wales (or Ireland), before the huge leap to Asia. And moving work is easier in Britain: its labour law and trade-unions alike are among the weakest in Europe.

The continental laggards will surely catch up. German firms are looking offshore hard (often to eastern Europe). So are Dutch and Belgian ones. So will even those in Ireland, once a place to go offshore to, not from. Surprisingly, even Ryanair, a famous cost-cutter, does not offshore yet, but for how long? And while Britain has its competitive advantage, its bosses, its consumers, even most of its workers—though many think the opposite—should count their blessings.

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Bagehot

Howard's way

Mar 4th 2004
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Michael Howard is in danger of losing sight of the bigger picture

Get article background

OVER the last few weeks, Michael Howard has made a series of carefully crafted, thoughtful speeches outlining his political philosophy. Supporters have applauded their seriousness and pointed to passages designed to signal the emergence of a kinder, more rounded Mr Howard, unrecognisable from the hard-faced Thatcherite ultra of the past.

Walking the talk, however, is proving harder for the Tory leader. Mr Howard's problem is that he seems incapable of passing up any opportunity to discomfort the government. Principle, consistency and strategy—all are jettisoned for the thrill of the moment. Too often, with an election less than 18 months away, he looks like an oldish man in a hurry.

In January, despite the misgivings of many of his MPs, Mr Howard insisted on sticking to a wholly cynical opposition to university tuition fees. Last week, Mr Howard was congratulating himself on having rattled the government over its rather enlightened plans to allow the citizens of new European Union member countries to come and work in Britain. Never mind that the enlargement of the Union to the east and support for the single European market have been the twin pillars on which Conservative European policy has rested since Margaret Thatcher was prime minister. Never mind that this was an example of Britain showing that its economic model is closer to America's than benighted “old Europe's”. For Mr Howard, playing to the tabloid gallery by whipping up fears of invading armies of benefit cheats was just too tempting.

This week, he has been at it again. After successfully negotiating the terms for his party's participation in the Butler committee that is reviewing the intelligence failures before the Iraq war, he suddenly decided he would have no more to do with it. Mr Howard complained that Lord Butler, a retired cabinet secretary, had reneged on the agreement he had extracted from the prime minister that the inquiry would examine the “acts or omissions of individuals”. The Tories' foreign affairs spokesman, Michael Ancram, claimed that Lord Butler had decided to focus only on “structures, systems and processes”. Mr Ancram argued: “That type of inquiry is not going to satisfy the doubts that exist in the public mind about the way the government handled intelligence in the run-up to the war.”

Lord Butler's terms of reference state clearly that the committee will look at how the intelligence was “used by the government” in the run up to war. If Lord Butler was indeed guilty of reinterpreting those terms of reference in a way designed to spare Tony Blair's blushes, Mr Howard would have been justified in pulling out.

But according to Lord Butler, Mr Howard and Mr Ancram were talking nonsense. In a stinging rejoinder, he said: “When the full committee met Mr Howard on February 17th, the members made it very clear that they would follow the analysis wherever it led, including uncovering any faults by individuals. The committee must start by looking at structures, processes and systems before considering which, if any, individuals should be held accountable.” To add to Mr Howard's embarrassment, the senior Tory MP on the committee, Michael Mates, refused to obey his leader's command to boycott the review. It was, he said doing important work and it was his duty to see it through.

What really gave Mr Howard's game away was his timing. Given that his meeting with the committee had taken place on February 17th, why did he wait nearly a fortnight before deciding to quit? The answer lies all too obviously in the sudden flare-up of Iraq-related news last week. With Clare Short, the former international development secretary, on the rampage and a growing cacophony of demands from all

sides (including the former Conservative prime minister, John Major) for the government to publish in full the advice it received from the attorney general about the legality of the war, Mr Howard smelt blood.

In attempting to undermine the Butler committee, he hopes both to make further trouble for Mr Blair and to untie his own hands. That much is clear. What Mr Howard thinks he will gain from this manoeuvre is less obvious. Iraq will certainly continue to dog Mr Blair, at least until he secures a new mandate. But it is far from sure that Mr Howard will, even indirectly, benefit from Mr Blair's vulnerability.

Opportunity knocks

While there are a good many senior Tories who had serious doubts about the war, Mr Howard was part of a leadership that was even more gung-ho to attack Iraq than Mr Blair. Bagehot cannot recall a single doubt expressed from the Conservative frontbench at the time about Saddam Hussein's destructive arsenal or the legal basis for going to war, the two issues that preoccupy Mr Howard now. Only the Liberal Democrats, who have mounted a sustained critique of the war, stand to gain. And they threaten many more Conservative than Labour seats.

Mr Howard would argue in his defence that he is doing no more than hold the government to account: that's his job. To criticise him for doing so would be like scolding a dog for barking. Nor was Labour any less opportunistic for most of its long years in opposition. Under John Smith, its attempts to bring down the Major government over the Maastricht treaty were as calculated a hypocrisy as anything contrived by Mr Howard.

However, the contrast with Mr Blair when he became leader of his party is instructive. Mr Blair's genius was to understand that simply hitting a government when it was down was not enough. For him, “the project” was above all else about re-making Labour as a party people could believe was fit to govern. That too should be Mr Howard's overriding aim. But he is forever distracted—both by his own nature and by the awful knowledge of how little time is left to him.

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Britain section summer intern

Mar 4th 2004
From The Economist print edition

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Rags and riches

Mar 4th 2004
From The Economist print edition

Fashion is a way of defining our identity, writes John Andrews. However ephemeral, it is here to stay

AT THE January shows of women's high fashion in Paris, John Galliano, the designer for Dior, sent his models tottering along the runway dressed like gold-clad Pharaonic princesses, with towering headdresses and masked faces. Emanuel Ungaro chose to flaunt extraordinary swirls of colour, micro-miniskirts and ruffles and veils that would make sitting in a taxi or eating lunch physically impossible. Donatella Versace showed dresses fit for a rock-star diva—all skin-revealing holes and sparkling fringes—but probably not for the girl on the commuter train.

It is easy to indulge an anti-fashion, predominantly male prejudice. As Bob Kerrey, a former American senator from Nebraska, puts it: “I saw fashion as more of a frivolous activity—beautiful women walking down runways with clothes no one can wear.” Yet Mr Kerrey has had to change his view. Three years ago he became president of New York's New School University, which includes the Parsons School of Design, breeding ground for much of the American fashion industry. Now he realises that “fashion is a very serious business”: it is the third-largest employer in New York after health care and finance. It keeps much of the advertising industry going; it plays a vital part in the retail trade; and, in a world of trade disputes and cotton subsidies, it is politically sensitive.

So why the prejudice? One answer is that it seems absurd to pay several hundred dollars for a cotton T-shirt from a “name” designer when a virtually identical garment can be bought in a supermarket for $10; or to spend almost $300 on a bikini so tiny it would hardly serve as a handkerchief. Worse, it smacks of wastefulness. Instead of frittering money away on pointless luxury, why not support a deserving charity?

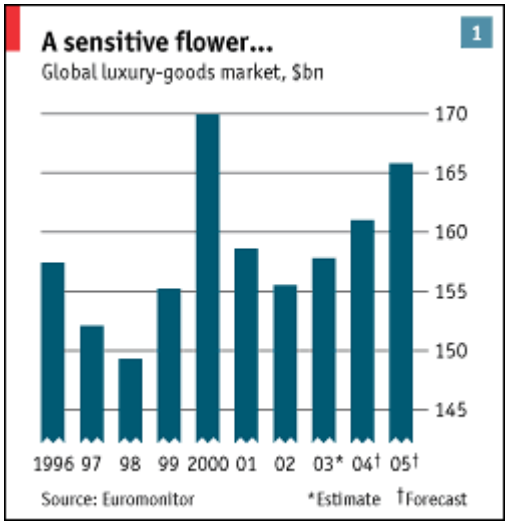
Another answer is that, witness Mr Galliano's latest collection, the clothes often invite ridicule. No sane woman is going to walk down the high street looking as though she has just stepped from an ancient Egyptian tomb. Few women other than Madonna ever wore the conical metallic-looking bra designed by Jean-Paul Gaultier in 1990. Both Mr Galliano and Mr Gaultier are perfectly capable of making wearable clothes, so the idea must be to create publicity; but this only serves to increase the sneers of the fashion-averse.

No escape

However, there may be a third answer: a resentment of the fact that we are all fashion victims. “Clothes maketh the man,” and what we wear matters. The elegant Parisienne who strolls along Avenue Montaigne in her Moschino jacket, Christian Lacroix skirt and Manolo Blahnik shoes is identified with a particular set. But so too is the London businessman hurrying along Pall Mall: his fashion is the pinstripe suit and dreadful club tie. The difference is that the Parisienne follows a fashion cycle that turns with the season; the clubman's cycle turns with the decade—and woe betide the fellow who tries to speed it up with a vermilion jacket lining.

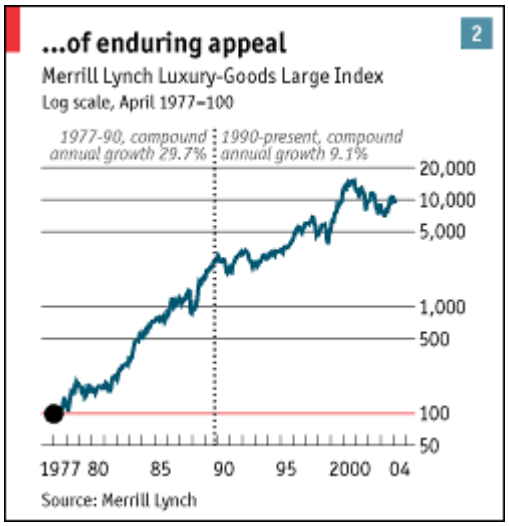
The underlying paradox is that fashion, by definition ephemeral, is always with us. In the mid-1990s young black men, first in America and later in Europe, would roll up one trouser leg, apparently to symbolise the shackles their ancestors had to wear. It was the mark of a collective identity. Today, teenage boys insist on wearing baggy jeans so low that the crotch is almost at knee level. Teenage girls, for their part, insist on “low-rise” jeans, a revisitation of the hipster jeans of the 1960s, but this time worn with a bare midriff. Yet the mere fact that these fashions are so widespread means they must be about to disappear. In the world

of fashion nothing is for keeps.



What exactly does fashion encompass? Older consumers think of clothing, harking back to the days when Christian Dior would take his tape measure and decree next season's hem length. Younger people have a broader definition: “what's in” covers not just clothes but music—hence the transformation of Sean Combs, variously known as Puff Daddy and P. Diddy, from hip-hop singer and record producer to fashion leader, complete with a successful clothes label, Sean John.

Financial analysts have their own takes on the subject. For some, fashion means the world of luxury goods, from the *haute couture* labels of Paris to the handbag- and shoemakers of Italy and the watchmakers and jewellers of Switzerland—and most of those, it seems, produce their own perfumes as well. For others, fashion means a world of shops, from swanky stores such as Le Bon Marché in Paris to mass retailers such as America's Target.



This survey happily accepts all those definitions, but excludes watches and jewellery. After all, an expensive watch is bought to last, and diamonds, we are told, are forever—which is something fashion can never be. It must perpetually renew itself to avoid being boring.

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Fashion's favourite

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Which centre takes the crown?

EPA

Predominantly Paris

“THE French really believe in fashion,” says Patrick McCarthy, the editor of America's *Women's Wear Daily*, in his Manhattan office. He has a good word for the Italians too: “They're much more in the American mould, seeing fashion as a business.” And the British? Oh dear, not even Norman Hartnell, dressmaker to the queen, made any real money. Britain, says Mr McCarthy with a rueful smile, “just didn't have the infrastructure and the belief in fashion”; its great textile companies, such as Courtaulds and ICI, “never supported fashion”.

The London of the swinging 60s, when Mary Quant celebrated the miniskirt and the Beatles bought their clothes in Carnaby Street, flattered to deceive. Britain's fashion schools still produce a disproportionately large share of the world's most talented designers but, witness today's stars such as John Galliano or Alexander McQueen, all too often they must go to Paris to prosper.

This helps explain why the upper reaches of the fashion industry today have only three centres of power: Paris, Milan and New York. Paris represents the tradition of *haute couture* (“high sewing”, ie, custom dressmaking) and its *prêt-à-porter* (ready-to-wear) offspring; Milan reflects generations of northern Italian craftsmanship, especially in textiles, shoes and leatherwear; and New York represents casual smartness and a century of powerful retailers such as Saks Fifth Avenue, Barneys and Bergdorf Goodman.

But power is not equally divided among these three cities. With due deference to Giorgio Armani in Milan or Ralph Lauren in New York, the true capital of fashion is undoubtedly Paris. It is home to the most famous brands, such as Chanel, Dior and Hermès. It is the headquarters of the biggest fashion conglomerate, LVMH, controlled by Bernard Arnault, and the home of his rival, François Pinault, who controls the third-biggest conglomerate, the Gucci Group. And it has the greatest concentration of creative talent, most of it foreign, thanks to the stifling rigidity of the French educational system. What happens in Paris reverberates around the world.

The reason is both history and design. In 1858 Napoleon III, wanting nothing but the best for his wife, Empress Eugénie, asked Charles Frederick Worth, an English dressmaker who had become a big hit in Paris, to design her wardrobe. One royal commission led to many others, right across Europe, and then to cheaper copies of Worth's creations. To protect what would now be called his intellectual property,

Worth in 1868 founded the Chambre Syndicale de la Haute Couture to promote and market Parisian tailoring.

Just over a century later, in 1973, the chamber was joined by two new organisations: the Chambre Syndicale du Prêt-à-Porter des Couturiers et des Créateurs de Mode, representing ready-to-wear, and for menswear the Chambre Syndicale de la Mode Masculine. Together they make up the Fédération Française de la Couture, du Prêt-à-Porter des Couturiers et des Créateurs de Mode, the organisation that sets the fashion calendar—and sets the rules. No fashion house can qualify as *haute couture*, for example, unless it employs at least 20 people in its workshop and presents a minimum of 50 designs at the twice-yearly Paris collections (the spring/summer shows take place in January; the autumn/winter ones in July).

What is the point of top-end fashion? An *haute couture* dress, which may involve 700 hours of painstaking labour, can cost more than $100,000. Not surprisingly, the customers for *haute couture* have dwindled to at most 2,000 women around the world (their names kept discreetly private by the fashion houses). At this January's *haute couture* collection for spring and summer, only 20 designers put their creative talents to the catwalk test.

For each of them, this involved a frighteningly intense period of preparation. First comes the idea, then the sketching, then the draping of white toile (muslin), first over a mannequin and later over a live model, and finally the cutting of samples on a pattern that translates the temporary magic of the toile into a permanent garment in the fabric and colours of the designer's choice. Everything is done by hand, from draping and pinning the toile to stitching perfect seams, and all of it requires complex skills. The draping is an art in itself (“sculpting with fabric”, in the words of Sue Jenkyn Jones, who teaches at London's Central Saint Martins College of Art and Design). The sewing is a craft that has to be much practised to be perfect, which is why the house of Dior so values the *petites mains* (“little hands”) who toil away in the studio above the Paris flagship store on Avenue Montaigne.

Cheap at the price

The commercial point of it all is that *haute couture* is every traditional fashion house's loss-leader. It creates and sustains the aura of the brand, and so persuades someone who would never dream of paying $20,000 for a hand-made, custom-fitted dress to pay $2,000 for an off-the-peg dress with the same label—or $500 for the fashion house's shoes, or $50 for its fragrance.

However expensive and exaggerated the runway show, the publicity it generates works out cheaper and more effective than spending $80,000 a page on advertisements in the glossy fashion magazines. One New York consultancy, the Right Angle Group, calculates that a 20-minute runway show, which could cost up to $500,000, will generate editorial coverage worth $7m in American fashion magazines alone. No wonder Messrs Galliano, Gaultier and McQueen are so keen to give the media something to play with. The fact that the clothes may not be wearable is irrelevant: the idea is to create a buzz.

The French authorities have always understood this. State-owned television channels compete with private-sector stations to flatter the fashion houses; subsidies are available to encourage couturiers to use French fabrics; and designers are able to show their runway collections in state-owned buildings, notably the Louvre museum, where the government in 1989 financed the construction of a salon that encompasses four halls and has room for 4,000 people.

Although free-market purists might object, to most people in the fashion industry this supportive policy seems perfectly rational. Pascal Morand, director of the Institut Français de la Mode, notes that France's fashion and luxury-goods industry, as defined by government statisticians, represents some 2,000 firms, 200,000 jobs and 5% of total industrial production. Include the textile industry, with 60,000 employees, plus packaging and bottling firms, and the share of industrial activity rises to 8%. Then count in things like advertising, graphic design, showroom management, video production and media coverage, and it all begins to add up to real economic weight. Note, too, that much of the industry's output is exported.

The problem for those in power is, of course, to retain that power. Can Paris, for all its assets, continue to dominate? Designers come and go, but what if Messrs Arnault and Pinault were to leave and their empires were to fragment? As for Milan, what will happen when Giorgio Armani, now 69, leaves the scene? And how will the northern Italian mills that supply Mr Armani with such beautiful fabrics survive against the growing Asian competition? Perhaps New York, with its huge domestic market and a new burst of creative talent, will become fashion's centre in the decades to come. Meanwhile, the challenge

for everyone is to sell: after all, fashion is a business.

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Business sense

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It takes a lot more than individual flair to stay at the top

AP

The Lagerfeld touch

“IT'S the capacity to make opposing forces work, a bit like fire and water,” says Bernard Arnault. “It's not enough to have a talented designer; the management must be inspired, too. The creative process is very disorganised; the production process has to be very rational.”

Mr Arnault, as chairman and controlling owner of LVMH, the world's biggest fashion and luxury-goods group, knows what he is talking about. He also knows that the history of fashion is littered with great designers who turned out to be commercial disappointments. America's Isaac Mizrahi, for example, had enjoyed a decade of ecstatic reviews from the fashion press, yet had never managed to make a profit for his backers at Chanel when he left in 1998. Zandra Rhodes, a pink-haired British designer with a magical command of fabric, has never made the money her talent deserves, even though in the 1970s and 80s she had a client list that ran from Bianca Jagger to Princess Anne.

Ralph Toledano, the chief executive of Chloé in Paris, argues that disappointments are inevitable when a designer has to cope alone with the pressures of business. “Creativity is essential: this is the essence of our business, our main asset. But, and this is where business comes in, fashion is not an art—it is creation applied to garments and accessories which must be successfully sold.”

Rather like a pop star, the designer needs a good manager. “There is almost no example of a success story in our industry that is not based on a foundation of two people,” says Mr Toledano. In France, Christian Dior had Jacques Rouët, and Yves Saint Laurent had Pierre Bergé. Chanel is now identified with Karl Lagerfeld, a 65-year-old multilingual German instantly recognisable by his silver pony-tail and ever-present dark glasses; but it is Alain Wertheimer, says Mr Toledano, who “is discreetly running the business”. In Italy, Miuccia Prada has Patrizio Bertelli; the late Gianni Versace had his brother Santo; even Giorgio Armani, a rare case of someone successful both as a designer and a businessman, started with a business partner, Sergio Galleotti. In America, Calvin Klein had Barry Schwartz, and Ralph Lauren worked with Peter Strom.

The difficulty is to sustain the relationship. Virtually every designer leaves college dreaming of establishing his or her own label, so to work for an existing label is a detour on the way to the dream. On the other hand, not to work for a famous fashion house might consign you to poverty and irrelevance. One solution is to allow a designer his own label while still working for the established brand. Karl Lagerfeld has his own label while still designing for Chanel; similarly John Galliano at Dior. Even so, the

world of fashion remains extraordinarily fluid. Mr Lagerfeld once worked for Chloé, as did Stella McCartney. Both are now with the Gucci Group.

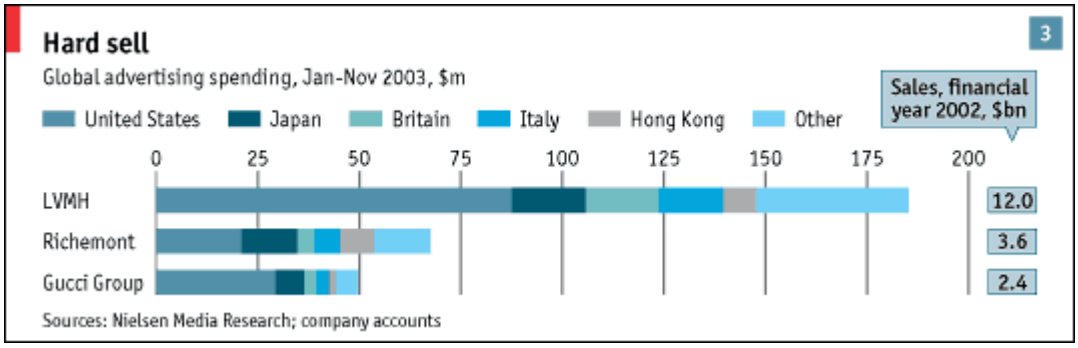
Clearly, then, loyalty should not be taken for granted. As Mr Toledano puts it, in a successful relationship the designer “respects the brand, and the brand trusts the designer's interpretation of its DNA”. If the designer rejuvenates the brand, “he becomes the figurehead, and the house that wants to secure his collaboration will find it crucial to allow this new designer to share the company's profits.” In other words, loyalty will have to be bought.

Mr Arnault would probably agree with that. Certainly LVMH's designers have for the most part prospered within his empire. But there is more to the Arnault formula than simply hiring talented managers, such as Sidney Toledano (no relation to Ralph, though they were schoolmates in Morocco) at Dior. Nor is it enough for such managers to hire talented designers such as John Galliano. What also counts is keeping control of the brand. For Mr Arnault, this means selling mostly through directly owned stores; limiting the licensed use of the brand name by others; and, through constant acquisitions in different parts of the business, making sure that your eggs are not all in one luxury basket.

Big eggs, many baskets

LVMH, created in 1987, has far more eggs than anyone else, many with long-standing credentials. Its initials stand for Louis Vuitton, a maker of high-quality leather luggage founded 150 years ago; Moët, a champagne company founded in 1743; and Hennessy, which has been making fine cognac since 1765. Add watchmakers, such as TAG Heuer, and retailers such as DFS (which started in duty-free shopping in Hong Kong in 1961), and Mr Arnault's empire adds up to more than 50 companies and brands and employs more than 56,000 people, two-thirds of them outside France. Whatever the economic vicissitudes that may afflict the world of luxury, some parts of the empire are bound to be making money.

Mr Arnault's formula is not unique; he has simply developed it more highly than his closest competitors have done. They are the Swiss-based Richemont group and the Gucci Group, a Dutch-registered company controlled by Pinault-Printemps-Redoute, a French department-stores-to-high-fashion conglomerate headed by François Pinault. All three mix “hard” goods, ie, watches and jewellery, with “soft” goods such as clothing, scarves, perfumes, shoes and leather goods. Like everyone else in the luxury-goods market, all three face the challenge of maintaining “brand integrity”—analyst-speak for that indefinable aura that convinces a consumer to pay a lot of money for something he, or more likely she, could buy much more cheaply elsewhere.



The destroyer of brand integrity is “brand dilution”, which is the perverse reward for popularity. If too many people have a supposedly exclusive Fendi handbag or Hermès scarf, it is no longer exclusive, and therefore, in the customer's view, no longer worth its vertiginous price. It is this logic that explains the luxury sector's constant efforts to limit counterfeiting and copying. Designers admit to a certain pride that they are being copied. But their corporate backers are not so relaxed: piracy means an inferior product that too many may mistake for the real thing. And even if the consumer knows that the product is pirated and inferior, he or she may still decide it is better value than the real thing: a woman's “Lacoste” polo shirt can be had in a Bangkok street market for $5, whereas the genuine article will cost $70 in Saks.

But what if the product is absolutely genuine, and is merely being sold at a bargain price? “Parallel importing”, meaning retailers taking advantage of cross-border price differences to undercut regular prices, “creates confusion”, to use the delicate phrase of Ferruccio Ferragamo, head of the Italian luxury-

goods company founded by his shoe-making father, Salvatore. The logical response for a fashion house is to control its own distribution.

That means two things: having exclusive stores, and limiting licences. Louis Vuitton, for example, has more than 300 stores in 50 countries. The New York “flagship” is on Manhattan's Fifth Avenue; the Hong Kong equivalent is in the Landmark building, with a constant queue of Japanese visitors outside. Gucci's huge Manhattan store is on Madison Avenue. Armani is opening a flagship store on Shanghai's Bund to add to the 290-odd it has around the world. Louis Vuitton makes about 80% of its sales in its own stores; Gucci more than 50%; Armani about 40%.

The rationale is simple. Instead of selling at wholesale prices to a department store, the fashion house can use its directly owned store to sell at retail prices to the consumer. It can also control its prices, get to know its customers better and promote its brand image through chic, exclusive shops. Over the past decade almost every luxury brand—one exception is Ralph Lauren—has concentrated on developing sales through its own stores.

The downside is the burden of fixed costs such as rent and employees. As the department stores put it, you need “footfall” to make a profit—which is why they always put their cosmetics counters on the ground floor to lure customers in. For the luxury labels in their own stores, it is hard to make money with expensive dresses occupying a lot of precious retail space. Expensive shoes and handbags are a safer bet, so almost everybody does them too.

Nonetheless, it seems unlikely that Shanghai Tang will ever sell enough to make financial sense of its shop on Madison Avenue, so it may be just as well that Hong Kong's ebullient David Tang in 1998 sold his creation to the Richemont group. It may be equally unlikely that Stella McCartney, part of the Gucci Group, will cover the costs of her recently opened London flagship, just off Bond Street. The trouble is that less exalted locations will not do: in the fashion world image is everything.

That image can take a battering when licensing goes awry. In the short term a licence is a guarantee of profit: the designer grants someone else the right to produce and sell a product under his name, and in return receives an up-front fee followed by a royalty of 3-8% of gross sales. The licensee bears the risk and the designer reaps a reward.

The problem is in the long term. If a licensee sells the product at a discount, or lowers its quality, or sells it in the wrong place, or bundles it together with low-quality products, the “brand integrity” will be harmed, perhaps permanently. The best-known example is Pierre Cardin, whose licensing operations proliferated so much that by the 1980s he had lent his name to up to 800 products, including toilet-seat covers. In the end, despite his talents as a couturier, he became too common for many high-fashion customers.

Mr Cardin, rolling in his royalties, did not seem to care. By contrast, Calvin Klein, who had licensed the manufacture of his jeans and underwear, cared a lot: in 2000, enraged by seeing his jeans on sale in cut-price outlets such as Costco, he sued Warnaco, his licensee, for breach of contract.

The trend now is for labels to buy back their licences. When Kim Winser and her Hong Kong business partner, Kenneth Fang, took over Pringle of Scotland in 2000, one of the first things Mrs Winser did as chief executive was to get back the ailing label's 64 licences. “We only had to pay for one,” she explains. “The other 63 had broken the rules.” With the licences revoked, Mrs Winser can now concentrate on restoring the upmarket image of a brand that is more than 180 years old. Gone is the emphasis on golf and the sponsorship contract with Nick Faldo; in has come a new flagship store on Bond Street, a new designer and an emphasis on more interesting versions of the high-quality knitwear that made Pringle's reputation in the first place.

Similarly, one reason for the recovery of Burberry's image—and profits—is that Rose Marie Bravo, an American wooed away from Saks Fifth Avenue in 1997 to become the quintessentially British company's chief executive, quickly bought back many of its licences.

Nonetheless, licences have their uses. Being a dress designer does not mean you know how to make sunglasses or women's tights or produce a perfume, so why not hire out your name to those who do, such as Luxottica in eyewear or Estée Lauder and Procter & Gamble in cosmetics and fragrances? Dior Couture, for example, still has eyeglasses, jewellery, lingerie and hosiery made under licence, though most of its other 300 or so licences have been taken back.

Betsey Johnson, whose sexy, fun dresses have inspired a cult following among the baby-boomer generation that loves the Rolling Stones, is negotiating her first licences this year, for shoes, hosiery, lingerie and jeans. Chantal Bacon, Miss Johnson's business partner, explains: “Before, we felt we could do it ourselves, and we tried with jeans for three or four years—but we could never get it quite right.” Nor could Donna Karan, who insisted on doing her own fragrance launch in the early 1990s, and managed to lose $5.9m on sales of $4.1m within six months.

Grow tall

But leave the last word on business to Giorgio Armani, a man who has had three decades' experience with his own label and inspires admiration throughout the industry, not least because he manages to make money even from his couture range. “It's really very straightforward,” says Mr Armani. “I design for real people. I think of our customers all the time. There is no virtue whatsoever in creating clothing or accessories that are not practical.” So much for the fireworks on the catwalk.

Just as important, Mr Armani says, be sure to be consistent, even as you diversify from high fashion into cheaper “diffusion” ranges, or into non-fashion areas such as home furnishings. Mr Armani's range goes “with a consistent Armani thread that links everything together”, from the very expensive Giorgio Armani line to the affordable Armani Exchange.

And, most of all, keep control of your brand. Licensing and franchising can help a business develop: Armani had a manufacturing agreement with Italy's GFT for 21 years. “However, no one looks after your name as you do yourself. My view is that a vertically integrated approach, where we control all aspects of design, production, distribution and retail, is ultimately the correct strategy for the long-term prosperity of the brand.”

But first you have to establish the brand. That is the problem facing the next generation of designers.

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Family frictions

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A question of inheritance

THESE days the Gucci brand stands for high-quality handbags, well-crafted shoes, elegant fashion, a supposedly “erotic” perfume called Envy for Men, and even wallpaper (complete with the “double G” logo). Yet a decade ago the image was one of financial battles, family feuds and murder, a combination mercifully rare even in the emotional world of high fashion.

The Gucci story begins in 1921, when Guccio Gucci opened a small leather-goods shop and saddlery in Florence. The domineering Guccio had five sons and one daughter, who in turn had children. After Guccio died in 1953, his son Aldo, inventor of the famous double G logo, started the transformation of the family business into a global brand, with Queen Elizabeth II and Grace Kelly as early fans.

Success increasingly brought family discord, with fist fights in the Gucci boardroom of the 1980s. Aldo and his brother Rodolfo wanted to limit Gucci products to Gucci shops; Aldo's son Paolo decided otherwise, and soon the Gucci logo was on everything from headscarves to keyrings. At a board meeting in 1982 Paolo was hit by a tape-recorder thrown by—the family history is fuzzy on this point—either his father or his uncle or Rodolfo's son, Maurizio. In response, he alerted the American authorities to his father's tax evasion. This led to a jail term for Aldo, and to the sacking of Paolo from the Gucci board. He set up a rival firm that collapsed in 1994, a year before his death.

More drama was to come. Maurizio, who in 1972 had angered his father by marrying the socially less elevated Patrizia, nonetheless inherited 50% of Gucci when his father died in 1983. He proceeded to force uncle Aldo from the board, and two years later jettisoned Patrizia. Her revenge came a decade later when Maurizio announced plans to remarry; he was shot dead in 1995 by a hitman hired by his ex-wife.

Enter the professionals

That the brand has survived the family is a tribute to the work of two Americans, Tom Ford and the Italian-born Domenico De Sole. Mr De Sole had joined Gucci in 1984 as boss of its American operations and was well aware of the family nightmare (“Each member of the Gucci family would have his idea, and what came out was a monster.”). His move to Italy a decade later came as Maurizio was selling his half of the business to the Bahrain-based Investcorp, which had already acquired the half belonging to Aldo and his sons in the late 1980s. When Investcorp floated the company on the Amsterdam and New York exchanges in 1995 and 1996, Mr De Sole was at last able to run Gucci properly.

Crucially, Mr De Sole nurtured the talent of Tom Ford, who had joined Gucci in 1990 and had become its overall creative director by 1994. Together they transformed the company, increasing its revenues by 32% a year between 1994 and 2002, and forming the Gucci Group with the acquisition of labels such as Yves Saint Laurent, Boucheron, Balenciaga and Alexander McQueen. They even managed to fight off a bid in 1999 from the fearsome Mr Arnault by enlisting François Pinault as a white knight. By 2001, Mr Pinault's PPR had acquired 54% of the Gucci Group and Mr Arnault admitted defeat. By the end of next month PPR, which now owns 68% of the Gucci Group, is obliged to make an offer for all the shares it does not own already.

And the reward for Messrs De Sole and Ford for rescuing the Gucci brand from the brink of bankruptcy? They will leave the group at the end of April because PPR has insisted on the final say in business decisions. But if they leave with sadness, at least they leave rich: Mr De Sole, for example, in January cashed in a third of his stock options and made a profit of $25m.

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Wish upon a rising star

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How fashion gets its new blood

AP

Zac is turning heads

THREE floors up an undistinguished building in Manhattan's Tribeca district, you suddenly find yourself in the world of Zac Posen: photos and sketches on the wall, pattern cutters at work, mannequins awaiting their *toile*, a couple of computers, an atmosphere of youth and nervous energy. A few blocks east in Chinatown, take an industrial-type lift to the sixth floor and you enter a remarkably similar world, that of Lazaro Hernandez and Jack McCollough (and a miniature Dobermann called Jojo). Together they design clothes under the label Proenza Schouler, after their mothers' maiden names. Conceivably the labels of Zac Posen and Proenza Schouler will soon be as well known as Galliano, Gaultier and McQueen. After all, in New York's best stores their clothes are already selling alongside those of the greater stars.

How have they done it? The frighteningly articulate Zac Posen is a mere 23 years old. The Proenza Schouler duo are only 25 and laugh a lot. Clearly they have bags of talent, but so do many others who will never have their creations sold in Barneys in New York or Harvey Nichols in London. The real explanation is that in the incestuous world of fashion they were smart enough, determined enough and lucky enough to get their talent recognised.

Lazaro Hernandez is a proud Miami Cuban who was once studying to become a doctor, but saw the fashion light and enrolled in New York's Parsons School of Design. In 2000 young Lazaro happened to be on the same aircraft from Miami as Anna Wintour, the English editor since 1988 of the American edition of *Vogue*. Too shy to speak to her directly, young Lazaro got a stewardess to pass her a note. A few weeks later Mr Hernandez received a call from the office of Michael Kors, an American who designs both for his own label and (for the moment) for LVMH's Celine: “Anna Wintour says you should work here.” This turned into a useful internship with Mr Kors, paralleled by one that Jack McCollough had with Marc Jacobs, another American in the Arnault empire.

As their partnership developed, Parsons School of Design allowed Lazaro and Jack to write a joint thesis, and then present a joint Proenza Schouler collection at the school's graduation show. Peter Arnold, head of the Council of Fashion Designers of America, was so impressed that he told Julie Gilhart, the fashion director of Barneys, to take a look. Barneys bought the whole collection. Suddenly, Proenza Schouler became a name to conjure with.

Zac Posen's rise has been equally spectacular. At a party given by the designer Azzedine Alaia in Paris three years ago, the supermodel Naomi Campbell coveted a dress made by the young Mr Posen, then still a student at Central Saint Martins in London. So Zac made a dress for Ms Campbell, an elaborate and complex gown from 36 separate pieces.

With admirers like Naomi, how can Zac fail? Even so, you have to meet Naomi (everyone in the fashion world talks in first names) to begin with—and thanks to his childhood in the SoHo district of Manhattan, Zac has always been on the right party circuit. Moreover, he has always been fascinated by fashion. At Central Saint Martins, from which he dropped out in his third year, he was already selling dresses to private clients.

Proenza Schouler and Zac Posen are not the only new stars of New York. Miss Wintour's *Vogue* has been similarly enthusiastic about Behnaz Sarafpour; so, too, has Ms Gilhart, who has this to say about the Iranian-born Behnaz: “She has that chicness and classicism that won't go away in women's fashion. She's super-talented and she knows luxury.”

There is no doubting the 33-year-old's talent. With her graduation show at Parsons in 1992 she won the “Golden Thimble Award”. Before starting her own label three years ago she worked with established names such as Anne Klein, Narciso Rodriguez and Isaac Mizrahi, and before selling her first collection to Barneys she designed for the store's own private label.

Queuing for the treadmill

The difficulty lies in marrying talent with the demands of commerce. As you become known, you have to extend your range, and as you extend your range you have to present more and more collections. For a successful designer the treadmill never stops: there are two collections a year in each of the fashion capitals; there are shows for womenswear and for menswear; there are “pre-collection” shows for the department-store buyers; there are accessories to design, or at least keep an eye on; for many designers, there is even a “cruise” collection to fit in.

All this takes money and organisation, which means Zac Posen is fortunate to have as his manager his mother Susan, a former mergers and acquisitions lawyer on Wall Street. Likewise, Proenza Schouler are lucky to have the backing of a German investor. So far Behnaz has just herself, her talent and a loyal following of women of taste. One limiting factor may be that her simple, elegant dresses are meant for slim women, increasingly rare in obese America. But Miss Sarafpour says: “I don't design for the American population.”

That may also be true of Proenza Schouler and Zac Posen: after all, designers are always fitting their creations on skinny models rather than on the kind of real women you might find shopping in a supermarket. But whereas Behnaz says, “I don't know anything about finance,” her rivals are business-savvy almost to a fault. Ms Gilhart remembers the time the Proenza Schouler boys arrived at Barneys' office with their samples: “I was very impressed. They came with their prices, a model and a big enough range.”

Moreover, Proenza Schouler and Zac Posen are already looking far beyond Barneys. Lazaro says firmly: “We want to keep a consistent look. It's very important to set an identity, as Armani has, and have a signature look that's broad enough to accommodate whatever's happening.” Zac says he is “designing dresses for a woman of 19-45, an international woman, extremely cultured, who likes to express the softer side of herself at times, and who at other times likes to be more aggressive, quality-obsessed.” Designer waffle? Maybe, but he adds a businesslike footnote: “You want to price the dress under $2,000, to capture the young, working professional. There are about 200 stores in the world we could sell in, and we sell in 50.”

Store power

Which stores will want which designers is, however, a sensitive matter. Kal Ruttenstein, the senior vice-president for fashion direction at Bloomingdale's, would doubtless be delighted to sell Behnaz Sarafpour's clothes in at least some of the company's 34 stores across America. But, he points out, Behnaz has an exclusive deal with Barneys, from which she also gets some of her private clients. With Zac Posen there is no such problem: “Zac Posen is learning how to market. We do our windows twice a year with Zac Posen.”

Bully for Zac. Other designers will not be so fortunate, and there are many in the fashion industry who profoundly mistrust the power of the department stores. One London analyst describes Philip Green, owner of Arcadia, a retail group which includes several British high-street fashion stores, as “brutal” in his dealings with his suppliers. In New York, Francesca Sterlacci, head of the fashion design programme at the Fashion Institute of Technology, says designers, especially new ones, are at the mercy of what amounts to “an ugly blackmail”: the store will take a collection and then return what it cannot sell. “The store's buyers want no downside. They'll say, ‘If you're not going to take this back, we can't deal with you again'.”

Similar hard bargaining goes on over discounting and sales. It may be perfectly reasonable that Barney's January sale should slash the price of a Behnaz Sarafpour dress from $1,210 to $295, because a new Behnaz collection is about to arrive. The difficulty comes when two widely different prices are being charged for the same product. This is particularly prevalent in the watch business, where prices in directly owned stores are constantly being undercut by competing retailers. To the customer, the higher price means the designer is being greedy, and to the designer the lower price demonstrates the retailer's

ruthless short-termism.

In fact, the retailer has a perfectly good reason for behaving as he does. The fashion cycle, once divided into two seasons, has now speeded up to the point where it is almost irrelevant. As one Paris analyst puts it, “consumers now buy on impulse,” which means the shops are constantly having to stock up with new things. Hence the mark-downs or returns that so upset the designers.

Consumers, of course, will not weep for any designer. They have become too accustomed to the “factory outlets” that over the past three decades have sprung up outside America's cities. The outlets, typically individual, manufacturer-owned stores grouped around a parking lot and with a restaurant to keep the shoppers fuelled, offer designer labels at prices too low to resist. At their peak in the mid-1990s there were about 330 such outlet malls; now there are 230 left, competing for the consumer's attention with America's 1,130 enclosed shopping malls and another 45,000-odd shopping centres. The way they persuade people to drive an average of almost an hour to shop there is to flaunt as many designer brands as possible. According to one 1998 study, the average visitor to an outlet stays for two hours and six minutes, 60% longer than in an enclosed mall, and spends 79% more than in a mall.

For the designer labels, it is worth taking their own space in an outlet: they can sell off their left-over merchandise at a better price than they could get from a discounting department store, such as New York's Century 21, and they can build customer loyalty. Indeed, because they often do not have enough left-over merchandise to fill their space, many companies, such as the Gap and Ann Taylor, manufacture specifically for their outlets.

But then the Gap and Ann Taylor do not pretend to be part of the world of high fashion. So is it wise for genuine luxury brands to rub shoulders with them in some mass-market mall? As with licensing, what looks good in the short term may eventually prove foolish.

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Selling dreams

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Try sex, shock or sheer glamour

ENGRAVED in the baby-boomer memory is the image of Brooke Shields in 1980, then a provocative 15-year-old dressed in a tight pair of jeans, declaring that “nothing comes between me and my Calvins”. In the week following a blitz of commercials (in one of which Miss Shields claimed, “I've got seven Calvins in my closet, and if they could talk, I'd be ruined”), some 400,000 pairs of Calvin Klein jeans were sold. By the end of that year, Calvin Klein had pocketed $12.5m in royalties from Puritan, the inappropriately named company licensed by Mr Klein to make and sell the jeans.

The connection between sex and fashion is not exactly new. Padded codpieces were the Englishman's fad in the 15th century, and in the 19th century well-bred women in England and France wore extremely décolleté dresses in the thinnest of fabrics. Mr Klein's innovation was to sell the sex in fashion to the masses, through television commercials, giant poster hoardings and advertisements in glossy magazines. One stunt was a 116-page supplement sent out with the October 1991 issue of *Vanity Fair*. The supplement featured near-naked women and men, exquisitely photographed in provocative poses. Within weeks, sales of Calvin Klein jeans at Bloomingdale's department stores in America had jumped by 30%.

To the naive, using sex to sell clothes might seem to present a problem: sex implies nudity, whereas clothes are about covering up. But a clever advertiser will solve that problem in a trice. For a full-length woman's trench coat, why not have a naked thigh poking out? For a pair of women's trousers, why not pose the model with her legs spread apart, with a hand caressingly close to the crotch? For a pair of high-heeled shoes, why not show the long, lissom leg attached to the foot?

For fragrances, there is no need for such inventiveness: a perfume goes on the skin, so let the advertiser show as much skin as public morals will allow. Four years ago a model, Sophie Dahl, stretched naked (save for her necklace and high-heeled shoes) and in orgasmic ecstasy across magazine pages and hoardings. Her role was to advertise Opium, a perfume from the house of Yves Saint Laurent first launched in 1977. The image was a touch too strong for the British public: after receiving 730 complaints, the Advertising Standards Authority decided to ban the ad, but not before the protests had boosted sales.

That should surprise no one. Clothing is about many things, such as protection from the elements, or functionality—which is why Amelia Jenks Bloomer, an American suffragette, protested in the 1850s against the ludicrously impractical crinoline petticoat and in favour of trousers (hence “bloomers”). But “fashion” is about identity. The young do not want to be bracketed with the old; the rich want to be seen as different from the poor; the “hip” want to separate themselves from the conventional. A prime example is the word-play of a clothing company called French Connection UK. It brands itself as FCUK, close enough to another four-letter word to dismay the older generation and delight the “cool” youngsters who are the 32-year-old company's target market. Whether because of or despite its advertising, the company has done well: its pre-tax profit in the year to January 2003 was £29.5m ($44.7m), compared with £10.4m four years earlier.

Christian Dior's advertising campaigns might also be considered a little close to the wind: it features young women, often drenched in fake sweat, wearing skimpy underwear, incongruously surrounded by handbags. But perhaps Dior's tradition gives it a covering of respectability.

One common criticism of the fashion industry's advertising is that it demeans women, reducing them to sex objects. But men are not exempt. In 1971 Yves Saint Laurent shocked the world by posing nude—except for a pair of spectacles—to promote his perfumes (and perhaps send himself up). Now Lacoste promotes its perfume for men by showing a totally naked hunk sitting in an armchair drinking coffee. This is clearly designed to appeal both to women and to gay men; so, too, the huge billboards in New York's Times Square advertising male underwear.

Yet shock-tactic advertising is not a foolproof recipe for commercial success. Abercrombie & Fitch, a 112-year-old clothes retailer with almost 700 stores across America, has recently kept its quarterly catalogue light on its sweaters, chinos and shirts and heavy on nudity, hoping to appeal to its target audience of college-age youngsters. The pre-Christmas 2003 issue went even further, accompanying a photograph of attractive young people in the buff with the suggestion that group masturbation makes “a pleasant and super-safe alternative” to group fornication.

Parents were deeply offended, which was just what the company was aiming for. But the youngsters seem to have been offended too, perhaps not by the content but by the blatant attempt to manipulate them. The company's December sales were 13% down on a year earlier, and a chastened Abercrombie & Fitch decided to stop publishing its catalogue.

Shock without sex does not necessarily work either. Benetton, an Italian clothing group which has 5,000 stores around the world, is famous for campaigns that have nothing to do with fashion: a 1996 advertisement, for example, showed three hearts (possibly human), labelled “white, black, yellow”; a poster last year, supporting the United Nation's World Food Programme, showed the naked torso of a black man, with a metal prosthetic spoon held out from the stump of his amputated right arm. Yet, for all the brand identity that such campaigns have created, Benetton's financial results have begun to disappoint. The group showed a net loss of *euro*10m in 2002, compared with a profit of *euro*243m two years earlier.

Perhaps it is best to rely on sheer glamour to sell your clothes. Certainly, there is an inexhaustible flow of beautiful young women who want to become models and are both skinny and tall (5' 9”, or 1.76m, is the ideal). Indeed the flow has become a torrent since girls from former communist countries have been free to seek their fortunes in the West. Yet only a few have the ability to mesmerise the camera lens, and not all of those will fall within the conventional modelling guidelines.

Model business

Britain's supermodel Kate Moss was spotted at JFK airport as a waif-like 14-year-old by Sarah Doukas, founder of London's Storm modelling agency, and it has never worried the agency's clients that Ms Moss grew to be only 5'8” tall (some say less). In 2001, Burberry's chief executive declared that “getting our bikini on Kate Moss cut the average age of our customers by 30 years in one fell swoop.”

But appearing beautiful is a labour-intensive business. You need a fashion editor to plan the cover, and a fashion stylist to find a location, set the mood and decide on the look of make-up and hair. You need a hairdresser, a make-up expert, a manicurist. And, of course, you need a photographer. Get everything right and sales rise all round, from the magazine to the lipstick and the nail-varnish.

That is all the more true if the cover features a celebrity rather than a model. Last December the film star Renée Zellweger, looking languid in a Prada dress, was the cover model for American *Vogue*; last month she dressed in a crimson silk strapless gown from Carolina Herrera for the cover of *Harper's Bazaar*. Actresses such as Ms Zellweger or Jennifer Aniston (another recent *Vogue* cover) seem more real to the average woman than an emaciated, extra-leggy model (see article).

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Catch a celebrity

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The stars get the clothes; the designers get the publicity

THE Oscars are the perfect opportunity for fashion designers to bask in the film stars' reflected glory. Will Renée Zellweger wear Carolina Herrera again; will Nicole Kidman be clothed by Jean-Paul Gaultier; will Liz Hurley threaten yet again to burst out of a Versace dress?

Cinema and fashion have long had an affinity with each other; witness Givenchy's little black dress for Audrey Hepburn in the 1961 film “Breakfast at Tiffany's”. The films of the 1960s and 70s featured Nino Cerruti's creations, worn by European actors such as Alain Delon and Catherine Deneuve. A decade later Mr Cerruti was Hollywood's tailor of choice, too, worn by Jack Nicholson and Clint Eastwood.

But the biggest celebrity designer is Giorgio Armani, Nino Cerruti's one-time employee. More than anyone, Mr Armani has exploited the commercial spin-offs from providing (free) clothes for the stars of film, television, music and sport. The 1980 film “American Gigolo”, starring Richard Gere, was nothing so much as an Armani fashion show; the 1980s TV series “Miami Vice” was another advertisement for Armani; so, too, in the 1990s Pat Riley, the tall and handsome coach of the LA Lakers basketball team. The business logic of all this is compelling. The Oscars, for example, are watched by more than a billion viewers around the world, so they reach far more people than any advertising campaign. When Nicolas Cage and Kevin Spacey wore Hush Puppy shoes at the 1996 Oscars, one Hush Puppy executive rejoiced: “One shot of an Academy Award-winning actor wearing our shoes is worth a dozen Hush Puppy ads.”

Yet the outfit that years after the event still sticks in the fashion industry's mind is that of Sharon Stone at the 1996 Oscars. Having accidentally torn her Valentino gown, she put together her own ensemble: a long Valentino skirt, a velvet Armani jacket—and a black turtle-neck sweater from the Gap that cost her $22. It was a reminder that stars, too, can dress like normal mortals.

There is nothing more normal than clothes bought at the Gap: the San Francisco-based company now has almost 3,000 stores around the world, or more than 4,200 if you add its more upmarket Banana Republic outlets and its downmarket Old Navy stores. But being normal is almost the opposite of being fashionable. As it turned out, Miss Stone's impromptu endorsement did not help the bottom line: by the end of the 1990s, the Gap's sales and profits had slumped.

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Street scene

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A catwalk wherever you look

FASHION people of every sort and all ages spend a lot of their time clubbing and partying. When Bloomingdale's Kal Ruttenstein is in Paris, he goes to the Marais, a district famous for its artists, exotic boutiques and its hundreds of trendy, often gay, bars. When Karl Lagerfeld was in New York in January, he made a point of checking out what diners were wearing at Schiller's, a new restaurant opened by the restaurateur of the moment, Keith McNally. The purpose is not entirely frivolous: Messrs Ruttenstein and Lagerfeld, neither of whom is in the first flush of youth, are keeping in touch with “the street”, that informal nexus of music, art, culture and fashion where wealth and social background are irrelevant. They know that what happens in the bars, clubs and restaurants of the Marais or New York's Lower East Side will serve as a better guide than any number of focus groups.

Not that it will have an immediate commercial application. “Street fashion” is usually too extreme for a mass retailer such as the Gap, and perhaps too cheap-looking to be copied as it stands by the high-fashion labels. Yet its influence will prove irresistible. How else did disco-flared suits and camouflage pants become the rage? The length of a skirt, the width of a tie, the cut of a jacket will all take their cue from what young people in Europe's and America's big cities choose to buy from a myriad of tiny cheap clothes shops that will never be advertised in Vogue.

There was a time when “street fashion” hardly existed: only the well-to-do could afford tailors and dressmakers, or shop in posh department stores. The working class was condemned to drab uniformity. But the political and economic upheavals of the 20th century led to huge social changes that, among other things, affected music, sexual mores and fashion. In the 1950s, rock and roll came to America, with Elvis Presley jiggling his pelvis in drainpipe trousers and James Dean looking moody in blue jeans. In the 1960s the interest switched to Britain: there were Teddy boys with velvet-collared long jackets and crepe-soled shoes; Mods in immaculate blazers and fur-trimmed parkas; and Rockers in motorbike leathers. Above all, there were the Beatles, the Rolling Stones and a whole new energy to popular music.

London was ready to become the fount of innovative fashion. There were bell-bottom trousers, Afghan jackets, psychedelic dresses, Mary Quant and the miniskirt, Barbara Hulanicki's Biba boutique and designers such as Zandra Rhodes. As François Baudot, one of France's most acute observers of fashion, writes: “In the mid-sixties, because of the strength of the English music scene, a trip to London became the more or less obligatory rite of passage for the young foreigner.”

Fast-forward to the 1970s, and it was the turn of Vivienne Westwood and her lover of the time, Malcolm McLaren, the manager of a band called the Sex Pistols. They introduced punk fashion, sold from a shop in Chelsea variously called Let it Rock; Too Fast to Live, Too Young to Die; Sex; and finally, by the end of the 70s, Seditionaries. It was Vivienne Westwood who introduced external seams, sado-masochistic chains, graffiti and pornographic imagery on clothes. Ironically, Miss Westwood is now part of the fashion establishment, honoured by the queen and designing exquisite formal dresses.

By the 1990s, the street fashion that counted was American “grunge”, a rumpled, deliberately ugly look to match the music of Seattle bands such as Nirvana and Pearl Jam. André Leon Talley, *Vogue*'s editor-at-large, predicted that grunge would mean the end of fashion. He was, of course, wrong. Just like every other wave of street fashion, grunge flowed into the mainstream, with designers such as Marc Jacobs and Karl Lagerfeld offering their very un-grungy customers dresses that pretended to be ill-kempt and dishevelled. Grunge was, mercifully, a short-lived fad, but the message is clear: music, youth and fashion are intimately connected.

All of which helps to explain the arrival on the fashion scene of Sean Combs, better known as either Puff Daddy or P. Diddy or, to some of his friends, “Puffy”, a nickname from his high-school football days when he would puff out his chest to look bigger than he was. Mr Combs has the kind of “street cred” that

cannot be bought: he is black, grew up in Harlem and was arrested after an incident at a Manhattan night-club in 1999 in which three people were shot (he was later acquitted of wrongdoing). He has his own music company, Bad Boy Records; he has a string of hit rap songs to his name; he produces hit records; and he was once engaged to Jennifer Lopez.

No doubt his background is part of the reason why his Sean John fashion line is a huge success. Almost any celebrity can turn fame into a stake in the market for fashion and luxury goods. Jennifer Lopez has a fashion line, her own perfume and a contract with Bernard Arnault to advertise Louis Vuitton handbags. Beyoncé Knowles is yet another popular singer who intends to lend her name to a line of garments.

But by all accounts Puffy is not just trading on his name. Kal Ruttenstein, who says that at many Bloomingdale's stores Sean John comes second in sales only to Ralph Lauren, declares himself a fan: “Puffy has great taste and is a great marketer. I only wear Sean John pants. They're very comfortable, and I wear them with an Armani jacket.” Puffy has clearly made the transition to fashion insider: he is seated centre-row at the Versace collections, is on first-name terms with Anna Wintour, and gets invited to Karl Lagerfeld's Paris home.

Yet Sean John is not in Barneys or Bergdorf Goodman. Nor is Phat Farm, the fashion line founded by another hip-hop impresario, Russell Simmons, who in January sold Phat Farm to Kellwood, a giant clothing company, for $140m. Nor, for that matter, are Fubu (“For Us, By Us”), Rocawear (founded by rappers Jay-Z and Damon Dash) and Wu Wear (founded by the Wu Tang Clan rappers). In fact no upmarket store, either in America or in Europe, sells any label that originates in rap music and hip-hop.

Undesirable friends

The reason is never stated, nor does it need to be: it does not make commercial sense for top stores, with their rich, overwhelmingly white clientele, to be linked even indirectly with America's black ghettos, and especially not with rap artists who, both in music and in real life, are associated with drugs and murder.

So pity Tommy Hilfiger, an American designer who has always wanted to be bracketed with Calvin Klein and Ralph Lauren. He is not in the very best stores either, almost certainly because in the 1990s his boldly coloured, logo-heavy menswear was enthusiastically snapped up by young African-Americans. That diminished the appeal of both his men's and his women's lines to white Americans who dress in Ralph Lauren or Calvin Klein.

In an attempt to broaden his customer base, Mr Hilfiger, who is white, has shrunk his distinctive logo and introduced a more expensive “H” label. He has also turned away from the hip-hop world by sponsoring mainstream white artistes such as Britney Spears and the Rolling Stones. So far, the strategy has failed to work: four years ago the company was forced to close its flagship stores in Beverly Hills and London, and last year it plunged into a loss of $514m, after a profit of $135m in 2002. Mr Hilfiger has fallen between two stools: having had to deny baseless rumours of racism, he is in danger of losing black customers without getting white ones.

But put Mr Hilfiger's problems to one side. The fact is that hip-hop, like every street fashion before it, has fed into the mainstream. That is why you can now buy Dior sports shoes (a kind of sneaker that is fortunately much more elegant than the over-large confections of the hip-hop world) and baggy Versace jeans. But hip-hop, like grunge, disco and psychedelic before it, is sure to fade, to make room for the next street fashion.

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Sweating for fashion

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Labour comes cheap, and will get cheaper still

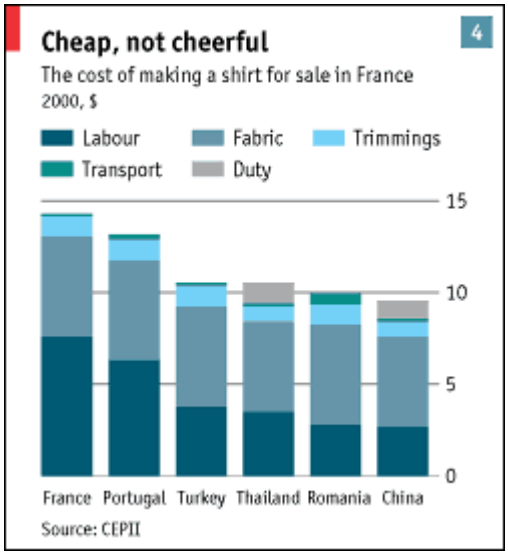
NOT all publicity in the fashion world is good publicity, which is why the Tommy Hilfiger website has a section called “Global Labour Practices” and why Gap Inc, the umbrella group for the Gap, Banana Republic and Old Navy, has a section coyly called “Social Responsibility”. Like virtually every other retailer and clothing manufacturer, they face the charge of profiting from sweatshop labour in developing countries. Nike, for example, has been accused of using child labour in Cambodia; Adidas of using prison labour in China; Benetton of using child workers in Turkey. Only the luxury end for the most part escapes such criticism: a Hermès bag really is made by hand in France, and Moschino dresses really are made in northern Italy.

But then the luxury brands can afford to use high-priced labour in their home countries. Less exalted labels (and, indeed, some of the cheaper “diffusion” lines of the top brands) cannot. At the top end of the market the commercial arithmetic allows a certain amount of leeway: designers like Proenza Schouler set a price for Barneys which is double the cost of their labour and materials; Barneys then sells to the shopper at about 2.6 times the price it paid to Proenza Schouler. Because the shopper is willing to pay up to $2,000 for her dress, everyone is happy. Go downmarket from Barneys, however, to the Gap and Macy's in America, or to Top Shop in Britain, or Printemps in France, and what counts most for the shopper is often price. Hence the competition by retailers and manufacturers to find the cheapest supplier, which means the cheapest workers.

Just how cheap would doubtless shock most of the buyers of the end-product. A sewing-machine operator in Bangladesh, for example, is entitled by law to a minimum monthly salary of $18.53, which would buy half-a-dozen caffè lattes at a Los Angeles Starbucks. In Honduras a worker in an export industry is entitled to $139 a month. In China's Guangdong province the minimum monthly wage is $63.75, supposedly bolstered by subsidised board and lodging for the thousands of young women who flock to Guangdong's factories from China's poorer regions.

When you compare those levels with the American minimum wage of $893 a month for a 40-hour week, it is not surprising that so many American companies have moved their production abroad. After 150 years in business the Levi Strauss company, for example, no longer makes its jeans in America: unable to afford workers earning $12 an hour, it closed its last American plant in January. Yet as recently as the 1980s Levi's had more than 60 factories in the United States.

Those cost pressures are not confined to American companies. A recent study by France's CEPII, an economic think-tank, calculated that the labour cost of making a shirt in France for the French market would be just over half of the total cost (see chart 4). If the shirt were made in Portugal, the share would be just under half. But if the shirt were made in China, labour would account for only 28% of the total. Even with customs levies and transport, the shirt from China would therefore cost little more than half the shirt made in France.



Your money or your reputation

The problem for first-world companies seeking suppliers in third-world countries is that they risk harming their image—and so their sales. Last December the National Labour Committee (NLC), a New York-based group, accused Sean Combs of using a Honduran sweatshop to produce his Sean John T-shirts. Standing outside the

site of the forthcoming Sean John flagship store in Manhattan, 19-year-old Lydda Eli Gonzalez, a former worker at the Honduran factory, said workers were paid just 24 cents for each $50 T-shirt; were limited to two toilet visits a day; had to do unpaid overtime; could not form a trade union; were forbidden to chat to each other; and were forced to take tests for pregnancy, HIV, diabetes and anaemia. Those who tested positive were sacked.

It is conceivable that Miss Gonzalez exaggerated. The factory-owner denied everything, and the Honduran labour minister described her allegations as “overblown”. Puffy said he would launch an immediate investigation, and sever all links with the factory if there was any proof of wrongdoing.

That would do no favours to the workers. The NLC recommends that companies from rich countries should persuade their foreign subcontractors to formulate and respect reasonable labour standards. Hence the Gap's code of “Social Responsibility”, which was introduced after the revelation by the NLC in 1995 that workers in Central America were earning only 12 cents for each $20 Gap shirt they made.

Now the Gap has more than 90 “vendor compliance officers”, often recruited from NGOs, to vet prospective suppliers and to ensure decent labour standards among current suppliers. Last year they conducted more than 13,000 inspections in 3,000 factories in 50 countries. “When we find a problem”, says a company spokeswoman, “we take action. In most cases, we'll work with factories to improve practices and conditions. But if they don't get better, we stop using them.” Last year that meant 120 factories were banned from doing business with the Gap.

So what, a cynic might retort. Those factories will cut their prices and get contracts with some other American or European company. The harsh reality is that there is already a “race to the bottom” in the competition to win contracts, and the pace is likely to speed up at the start of next year when members of the World Trade Organisation end their quotas on textiles and clothing. With imported garments then likely to be around 15% cheaper, rich consumers will have cause to smile. Not so the poor people who make the clothes.

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No end of luxury

Mar 4th 2004
From The Economist print edition

Markets for high fashion are expanding, not shrinking

Reuters

The future's dazzling

THE terrorist attacks on September 11th 2001 reverberated even in the world of fashion. Department stores cancelled their spring-collection orders, the spring 2002 New York Fashion Week was cancelled for the first time ever, and LVMH's net income for the 2001 financial year plummeted from *euro*722m in 2000 to just *euro*10m. After a recovery in late 2002, misfortune struck again in 2003: war in Iraq, the SARS epidemic in Asia and a persistently sluggish economy in Japan. Tourists around the world are responsible for around a quarter of the world's luxury purchases, so anything that lessens international travel hurts the industry.

Yet this apparent vulnerability to world events is actually a sign of strength. The world of luxury is truly global, with all the commercial opportunities that implies: as people get richer, they spend proportionately less on necessities and more on luxuries. This has long been true in Japan, whose fashion-conscious people account for a quarter of the world's luxury-goods sales. That is why corporate analysts anxiously examine the state of the Japanese economy: any change will have an effect on the share prices and sales of luxury-goods houses. And because most Japanese prefer to buy their luxury goods abroad (where prices are up to 40% lower than at home), any change in the value of the yen against the dollar and euro matters too.

But looking a little farther ahead, it is clear that other Asian countries, and particularly China and India, will follow where Japan has led. Between them, those two countries make up more than a third of the world's population, and already the luxury labels of Europe and America are rushing to set up flagship stores in Beijing and Shanghai (though not yet in India). According to the Boston Consulting Group, China already accounts for 5% of the world luxury market—the same share, it is worth remembering, as post-communist Russia.

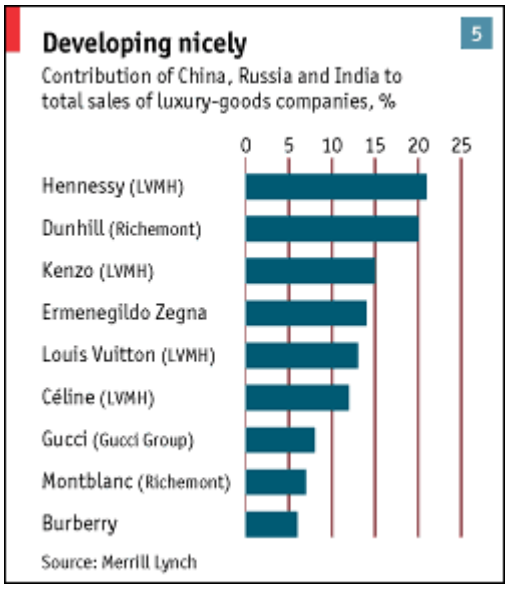
All this suggests that the luxury labels need not fear a shrinking market. They may, however, need to fear a changing market. In the days of Christian Dior, who in 1947 launched his elegant “New Look” of small waists and full skirts, a fashionable woman would never dream of mixing that look with something designed for the masses. Nor would fans of Coco Chanel, even though in the 1920s, when materials were in short supply, Miss Chanel had more or less invented “poor chic” by using jersey knit, a fabric previously used for men's underwear.

Yet today it is perfectly acceptable for a smart woman (or man, for that matter, though women

outnumber men by four-to-one in their shopping forays) to mix a Chanel or Prada jacket with a pair of blue jeans. The female fashion fad of the moment is the Ugg shoe, an ugly but supremely comfortable sheepskin boot originally made for Australia's surfers, male and female, when they get out of the water. It is perfectly acceptable to wear Uggs with just about everything. Fashion has become democratised, and a market that once belonged entirely to high-fashion brands is being invaded by low-price competitors, from the Gap to Hennes & Mauritz, a Swedish ready-to-wear chain which over the past 57 years has exported its H&M logo to 17 other countries.

The most impressive competitor, however, is Zara, a Spanish company operating in 46 countries, which has shortened the fashion cycle to the point where it no longer exists. By having 200 in-house designers and by controlling the whole process from textile mill to retail shop, Zara can put new items in its 626 stores twice a week. Moreover, it ruthlessly removes its lines—even the best-selling ones—every three weeks or so. The result is that Zara always has fresh styles, and its customers never feel out of fashion. Perhaps companies such as LVMH, Gucci, Prada and Armani should start to worry.

Yet a Zara sweater or skirt will never be the equal of one by Missoni or Dolce & Gabbana. As long as customers want quality, the high-fashion brands will be safe. Calamities notwithstanding, there still seem to be plenty of people who can afford prices that give the high-fashion brands gross margins of 50-60% on clothes and 80% on leather goods.



Could the internet threaten the luxury brands? There are sites such as bluefly.com that discount their wares heavily, but undiscounted sales by the brands' own sites have been somewhat disappointing. Salvatore Ferragamo used to offer its clothes and accessories on LVMH's eluxury.com site (where Dior's “latest blonde shoulder bag” sells for a mere $1,280), but the company pulled out. “Our consumer didn't want internet buying,” says the company's boss, Ferruccio Ferragamo.

What may make a difference is a better way to get clothes to fit. Suran Goonatilake, “entrepreneur-in-residence” at the London College of Fashion, is the founder of Bodymetrics, a company that uses three-dimensional scanning to get an exact measure of a person's body. At the moment the system is being tested at Selfridges, a store in London's Oxford Street, where customers are being advised which clothes to try according to the print-out. Clothing sizes vary not just from country to country but from manufacturer to manufacturer, so Bodymetrics could be a boon both for the buyer and the manufacturer alike—even for the creative people, who tend to design for clothes horses rather than for normal human beings.

Art, not craft

Yet fashion cannot be reduced to a set of measurements. Some designers insist that fashion is not art. Instead, it is “design” because, like architecture, it has a function. By contrast, this survey would argue that the best designers, from Balenciaga to Alexander McQueen, are as creative as any painter or sculptor, and even when they borrow from the past they add something new. Indeed, because the designer's medium is the human body, fashion is surely interactive art at its best.

But it is not yet art for the masses, whatever the efforts of Zara and of the talented Isaac Mizrahi, who now works for America's downmarket Target chain. That is not to demean those efforts. After all, when the materials are cheap, it becomes technically more difficult to design good-looking clothes. Nor is it to demean the masses, whose fashion choices are generally limited by price. Instead, this survey would simply praise the self-selected elite who choose to spend their time and money on the kind of clothes and accessories that are plainly luxuries rather than necessities. If, for the narrow-minded, that qualifies them as irresponsible wastrels, so what? In an often ugly world, they provide some welcome style.

So forget the threat to luxury brands from the “democratisation” of fashion and the pressures of mass-market competition. The chances are that as long as human beings appreciate art, and as long as there are enough rich people to pay for it, the world of luxury and high fashion will prosper. Let the designers indulge their fantasies. Today's fantasy becomes tomorrow's fashion, and the-day-after-tomorrow's discard. Hence the paradox that keeps us fascinated: fashion, by definition, is temporary—but it is always

with us.

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Sources

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Among the shelves of books devoted to fashion, readers would do well to consult:

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Company bosses

The siren song of the outsider

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It is usually a bad sign when a firm looks outside its own ranks for its next boss

THE revolt by shareholders of Walt Disney demonstrates, if nothing else, how difficult it is for a public company's owners to remove a boss who does not want to go. Despite 43% of shareholders withholding their votes from Michael Eisner in the board election at the firm's annual meeting on March 3rd, the long-serving boss retained his position as chief executive, although he relinquished his position as chairman in what will surely be an unsuccessful attempt to placate his opponents.

Yet almost as hard as getting rid of a chief executive is the task of finding a suitable replacement. Such has been the dominance of of Mr Eisner at Disney that, when he finally goes, the company may struggle to find a successor within the cowed ranks of its top management. But Disney is by no means alone in failing to groom a new leader from its in-house talent pool. ABB is a multinational engineering business with some 115,000 employees in around 100 countries. Yet not one of these employees is deemed capable of running the company. ABB announced last week that its next chief executive will be an outsider. Fred Kindle, currently the boss of Sulzer, a much smaller Swiss engineering business, will join Zurich-based ABB on September 1st and take over as chief executive from Jürgen Dormann in January.

ABB used a firm of head-hunters, Egon Zehnder, to carry out “a thorough and careful search and evaluation”. It took a year to come up with half a dozen candidates, some of them internal, some external. The winner has an MBA and four years' experience with McKinsey, a consulting firm with a decidedly mixed record among Switzerland's leading firms.

Choosing an outsider as chief executive is more common in America than it is in Europe. Coca-Cola recently announced that its boss, Douglas Daft, will be retiring at the end of this year and, more controversially, that it will employ a firm of head-hunters to “carefully consider external candidates along with the internal candidate we have in Steve Heyer.” Given that Mr Heyer only joined the company in 2001—from AOL Time Warner—all the candidates are, in effect, outsiders.

Yet even in America, this is still the exception, not the rule. Recent regime changes at the top of other big companies have followed the more traditional pattern. This week, Lockheed Martin said that its boss, Vance Coffman, will step down on August 6th to be replaced by Robert Stevens, currently the defence company's chief operating officer, while ExxonMobil, by promoting Rex Tillerson, its head of production, to president last week, suggested that he is being groomed to take over from Lee Raymond, the current

chief executive. Both Mr Stevens and Mr Tillerson are long-time employees of the firms that they are in line to lead.

Every one of the top ten (nine of them American) on the list of the world's most admired companies—admittedly, not an infallible yardstick of corporate merit—in the latest issue of *Fortune* magazine has a boss who was appointed from inside. None of them has spent less than 20 years with their current employer. The bosses of the top three British firms on the list (Tesco, BP and Shell) had notched up between them almost a century of employment with their respective firms. The first company on the world-wide list about to break that mould is 11th-placed Coca-Cola.

Hunting for charisma

Boards have traditionally turned to outsiders when their companies have been in trouble. Scandal-hit firms such as Tyco and WorldCom probably had no choice—any internal appointment would have been viewed with too much suspicion, not least by investors and regulators. But in several less dramatic cases the injection of fresh blood has worked. Lou Gerstner, brought into IBM from RJR Nabisco, famously converted a failing manufacturer of mainframe computers into a thriving IT-services business.

Chuck Lucier, of consultants Booz Allen Hamilton, has examined the performance of insiders and outsiders over time and found that, in general, outside chief executives do very well in the early part of their tenure and very badly in the latter part. Insiders have a “remarkably even” performance over time. Outsiders are good at doing the rapid cost-cutting and divestment often needed by firms in trouble, but they are less good at building and sustaining long-term growth, says Mr Lucier.

Michael Eisner's track record at Disney is a bit like this, argues Mr Lucier. Hired from outside in 1984 to be chief executive, Mr Eisner had some good years followed by a lot of bad ones, exacerbated by the death in 1994 of Frank Wells, his trusted operational chief, in a helicopter crash.

In recent years, it has become almost a matter of course for boards at least to look outside for their next leader, even if most still decide, in the end, to pick an insider. One of the reasons for this, says Dayton Ogden, a head-hunter with Spencer Stuart and co-author of “CEO Succession” (OUP, 2000), is “to benchmark their insiders”. High-tech firms (not all of them struggling), such as Motorola, Hewlett-Packard and Yahoo, have led the way in appointing outside chief executives.

In “Searching for a Corporate Saviour” (Princeton University Press, 2002), Rakesh Khurana, a Harvard Business School professor, suggests that this is part of a growing “irrational quest for charismatic chief executives”. Mr Khurana argues that the process for finding a chief executive from outside (which invariably involves head-hunters) is so flawed that it “frequently fails to hire the best people available” and “tends to produce leaders with almost identical social, cultural, and demographic characteristics.” Spencer Stuart's Mr Ogden says that this is “bollocks”.

Roselinde Torres, US president of Mercer Delta Consulting, a firm that advises companies on chief-executive succession, suggests that boards are being tempted to look outside because they can more easily fantasise about the charisma of unknowns with great résumés than they can about the all-too-familiar insiders they meet in the lifts. But she finds that chief executives fail most often when they “cannot provide the contextual stuff”, the right networks and culture within the company—a particularly difficult task for an outsider.

One way to resolve the outsider-insider dilemma is to look for an outsider with inside knowledge of the business. Disney may yet find just such a person to succeed Mr Eisner. If Comcast, the cable-TV firm which has launched a hostile bid for Disney, succeeds in taking over the firm, it is likely to put Stephen Burke in charge of the acquired Disney operations. Mr Burke joined Comcast in 1998, after spending 12 years working for Disney. He is a classic “insider-outsider”, a man with experience of the company, but with a long enough absence from it to shake off much of the baggage that insiders bring to the top job. Perhaps if Disney shareholders want a solution to the unresolved issue of Mr Eisner's succession, they could do worse than vote in favour of the Comcast bid.

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Corporate crime

Bernie's turn

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Another week, another indictment

AP

Another grim weekend at Bernie's

BERNIE EBBERS, the ex-boss who steered WorldCom through an $11 billion accounting fraud and into the bankruptcy courts, may not have been overly blessed with management foresight. Yet in one crucial respect Mr Ebbers now appears remarkably prescient: he refused to use e-mail. The ensuing lack of evidence electronically tracing the fraud to the boss's door has stymied the work of government prosecutors, who until recently had secured guilty pleas only from four of his underlings. That changed this week with the capitulation of WorldCom's former finance chief, Scott Sullivan, who pleaded guilty to his role in the fraud. With Mr Sullivan now co-operating, the feds swiftly indicted Mr Ebbers.

Developments at WorldCom mirror those at Enron, another famously fraudulent company, last month. There, a federal task force indicted Jeffrey Skilling, the company's former chief executive, following a guilty plea and a co-operation agreement from Enron's ex-finance chief, Andrew Fastow. Yet the two indictments could not read more differently. From what the government has revealed so far, it is difficult to see what hard evidence, if any, Mr Fastow has delivered that ties Mr Skilling directly to the crimes committed by his underlings. Mr Sullivan, on the other hand, has clearly sung like a canary.

After Enron's relentless financial engineering, the fraud that took place at WorldCom is at least refreshingly simple. In September 2000, WorldCom's performance had begun to deteriorate to the extent that the telecoms company looked likely to miss its profit targets. Over the following six quarters, Mr Sullivan and David Myers, WorldCom's financial controller, directed accounting staff to cook the books to meet the market's expectations, a process known at the company as “Close the Gap”. The gap was duly closed, mainly by booking billions of dollars-worth of costs as capital expenditure.

The indictment filed this week alleges many connections between Mr Ebbers and the misbehaviour of his finance chief. When WorldCom's problems first arose in 2000, for instance, Mr Sullivan suggested that WorldCom issue a profit warning. Mr Ebbers, it is claimed, rejected this idea. Instead, claim the government prosecutors, both he and Mr Sullivan instructed staff to make the accounting adjustments. Moreover, they allege, Mr Ebbers participated “extensively” in close-the-gap exercises. Mr Sullivan, meanwhile, acted with the “knowledge and approval” of Mr Ebbers, meeting with him in October 2000, March 2001 and at other times to discuss how to cook the books.

Despite his aversion to e-mail, Mr Ebbers did carelessly leave behind the odd scrap of hard evidence. This includes a memo to executives concerning “those one-time events that had to happen in order for us to have a chance to make our numbers.” Also surviving is a voice-mail (is that indestructible, too?) left by Mr Sullivan for Mr Ebbers in June 2001 that talks about the books “getting worse and worse” thanks to “accounting fluff” and about the “one-time stuff or junk that's already in the numbers.”

Other participants in the fraud, including Mr Myers and Buford Yates, WorldCom's former head of accounting, may testify against Mr Ebbers. Without directly fingering the boss, both men have said that their actions were approved at the highest levels of the company. Mostly, however, the government is likely to rely on the testimony of Mr Sullivan. Lawyers for Mr Ebbers, meanwhile, will try to discredit the government's star witness (surely Mr Sullivan is trying to reduce his own sentence by accusing his old boss?) and also to cast doubt on his allegations that Mr Ebbers—who is after all an ex-bouncer, milkman,

college drop-out and (wait for it) an accounting novice—knew that Mr Sullivan's tricks were illegal.

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Royal Dutch/Shell

Oil's not well

Mar 4th 2004
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A sudden surprise departure

ON MARCH 3rd, Sir Philip Watts “stepped down...with immediate effect” as chairman of Royal Dutch/Shell, the world's third-biggest oil firm. The understated European way of giving Sir Philip the boot—a simple four-paragraph statement from the firm, after a regularly scheduled board meeting—was in stark contrast to the attempts the same day across the Atlantic to remove Michael Eisner from the top job at Disney.

But Sir Philip's sudden departure—a complete surprise to Shell's employees and shareholders alike—was, like the pressure on Mr Eisner, due to growing shareholder activism. Sir Philip was never a favourite with institutional investors. But they were particularly incensed by his handling in January of an announcement that Shell's “proven” oil reserves were 20% less than previously declared. There were calls for him to go but, on February 5th, unveiling the group's annual results, he said, “I will not resign.” And that seemed to be the end of the matter.

So what happened in the intervening month? In the first place, Shell's two senior independent directors, Lord Oxburgh, a scientist, and Sir Peter Burt, a banker, have been canvassing the opinions of investors. It seems that what they heard so disturbed them that they decided to stage an old-fashioned boardroom coup to remove Sir Philip. It is also clear that the company has been spooked by an investigation by America's Securities and Exchange Commission (SEC) into its booking of reserves in the Gulf of Mexico. By removing Sir Philip, who was in charge of exploration and production before he moved to the top job, the company may feel it is distancing itself from any SEC findings.

The institutions insist that their grouse with the company goes beyond personalities. At its core lies the arcane structure of the Royal Dutch/Shell group of businesses, a hangover from its imperial origins. Sir Philip was chairman of a key central committee of five managing directors, a group whose lack of accountability particularly disturbs the institutions. But do not bet on reform. The committee is now headed by a Dutchman, Jeroen van der Veer. It is the Dutch who are most opposed to making significant structural changes. For that might endanger the group's delicate 60/40 balance of shareholdings in their favour.

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Beer

An awful lot of brewing in Brazil

Mar 4th 2004 | SÃO PAULO
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Brazilian beer comes on to the world market

WHEN Brazil's two biggest brewers merged four years ago to create AmBev people wondered whether they were witnessing the creation of a monopolistic monster. Fear not, said AmBev, we are going to be Brazil's first true multinational. AmBev, the world's fifth-largest brewer, has now kept that promise, but in an odd way. On March 3rd it announced a “combination” with mighty Interbrew of Belgium, creating the world's largest beer company by volume (see chart).

The deal is complicated. Interbrew is to acquire a controlling stake in AmBev, paid for with a new share issue. AmBev in turn will acquire Labatt, Interbrew's North American brewery, in exchange for assuming Labatt's $1.5 billion debt and issuing more shares to Interbrew. Although the Belgian brewer is parting with a minority stake and getting a majority of AmBev, the shareholders of the two firms will have an equal say in the running of InterbrewAmBev, as the new entity will be clumsily called for now.

There is the usual talk of “combining world class competencies” and “synergies”. But since the operations of the two brewers barely overlap, synergies will be few. The $175m of savings expected, from such measures as joint buying of cans and slimmer headquarters, is a tiny fraction of total costs. Plans for the two firms to sell each others' brands in their home markets may also yield only modest returns.

Interbrew's main gain is a stake in one of the few beer markets anywhere that is growing noticeably. AmBev is dominant in Brazil and Argentina, the two biggest markets in a region where consumption has grown at an average of 5% a year in the past decade. Interbrew's main markets in Europe and America are growing much more slowly, if at all.

AmBev, says Marcel Herrmann Telles, its co-chairman, is fulfilling its “original dream” by becoming “really an American beverage company everywhere from Canada to Patagonia.” With this jump into North America, AmBev is leading in a trend among Brazilian firms to reduce their cost of capital by acquiring firms in less risky foreign markets. “If you join with an international player, your risk premium falls dramatically,” says Giovanni Fiorentino of Bain, a consultancy. That makes it cheaper to expand through acquisition. Mr Telles calls this week's deal a “zipcode enhancement.”

AmBev's home zipcode has become less comfortable recently. Economic downturn and a rainy summer depressed beer sales in Brazil last year. Its rivals are upping the ante. Schincariol, Brazil's second-biggest brewer, launched its Nova Schin beer last year with a wildly expensive but effective ad campaign urging Brazilians to “Try It!”. Many did, and AmBev's market share dipped from 70% to about 68% . For the first time in ages, AmBev did not pay workers a profit-related bonus.

Still, says Mr Telles, AmBev has recouped some of the lost market share. Its bosses are among the most celebrated in Brazil. “Its management is great,” says Rodrigo Fonseca of ARX Capital Management. AmBev now has a chance to prove it throughout the western hemisphere.

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One success could encourage others

EPA

Smile the beloved country

BETWEEN sobs, Charlize Theron thanked her native South Africa as she collected an Oscar for best actress at the Academy Awards this week. Though her film, “Monster”, was American-made and about an American killer, this success could reflect some welcome light on South Africa's own film industry. Though small, it is growing fast. Jean-Claude Van Damme was recently blowing up things and hitting people in Cape Town for his action flick “Wake of Death”. Samuel L. Jackson and Juliette Binoche have finished a solemn movie about racial reconciliation in South Africa. Other famous actors and directors are frequently spotted in Cape Town's bars in the southern hemisphere summer.

Cape Town is a popular venue for visiting film-makers because of its sandy beaches, blue sea, jagged mountains, nearby desert and vineyards, and streets that can double as London or San Francisco. Ad-makers have long loved its predictably glorious summer weather; now film producers are coming too. Last year the city issued over 4,000 permits to film, more than a four-fold rise on 1999. Even the strong rand and rising prices in South Africa have not deterred outsiders.

But what the industry says it really wants is more home-grown achievement. It is rare for a local film to earn big money or critical acclaim, let alone both. The biggest success was “Mr Bones”, a slapstick comedy featuring lots of flying animal faeces, which grossed over 32m rand ($3.7m) in 2001 and reached European screens. Last year “Stander”, a Johannesburg film about a cop-turned-bank-robber, packed local cinemas but did not play abroad.

Expect bigger films as the industry expands. Work is about to start on the country's first Hollywood-standard studio complex, near Cape Town. It will have eight stages, employ 8,000 people and cost 500m rand. “With this studio we could have made ‘Lord of the Rings',” says Michael MacCarthy of Dreamworld Film City, the consortium building it. It will allow film-makers to work all year round, and to do post-production work as well as shooting, for everything from a 30-second advert to a monster blockbuster.

More even than New Zealand, where the “Lord of the Rings” trilogy was made, Mr MacCarthy hopes to emulate Australia, where good weather, tax-breaks, purpose-built studios, skilled workers and mass production have won the country a strong reputation for film-making. South Africa's government is also keen, believing that a flourishing film industry encourages tourism and other interest in the country

(films of South Africa will be promoted by its embassies around the world).

The only hindrance is a feeble domestic market. Black South Africans, especially, are not keen movie-goers, perhaps because there are few cinemas in the townships where many live. Even rich whites are hard to entice. The cinema chain that operates in Ms Theron's old home town, Benoni, will not be showing her Oscar-winning movie. The crowds will not come, explained a manager: the story of a lesbian serial killer is too “upmarket”.

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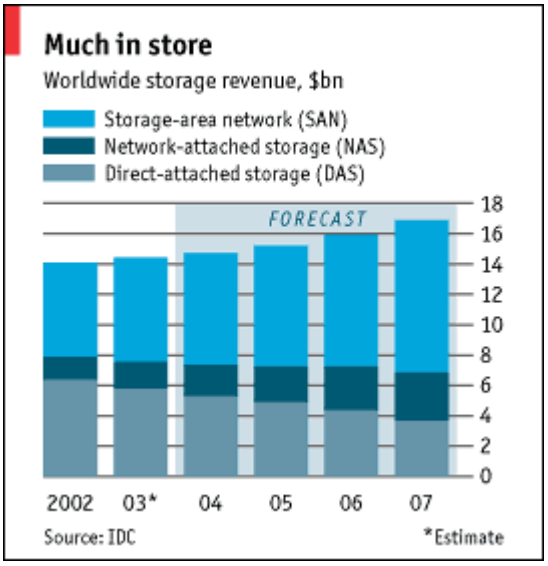
Data storage

File that

Mar 4th 2004 | SAN FRANCISCO
From The Economist print edition

The Sarbanes-Oxley act is causing a quantum leap in the storage industry



THE people in charge of computers at American firms are scrambling to comply with the dreaded Section 404 of the Sarbanes-Oxley act, hastily passed by Congress in 2002 to force companies into better corporate governance. It requires meticulous documentation of accounting and other processes, amounting to terabytes of electronic data, or what would have been mountains of paperwork in another era. Yet only one in five large companies surveyed by Gartner, a consultancy, is ready. Last week, regulators had to extend the compliance deadline from June 15th to November 15th.

The data-storage industry, of course, is having a ball. Listen, for instance, to David Goulden, a senior executive at EMC, the industry leader. Under normal circumstances—ie, without Sarbanes-Oxley and its growing number of equivalents abroad—the data-storage needs of a typical company would increase by 30% or so a year. That may seem a lot, but not if you consider that the price of storage is falling by far more than 30% a year. Enter the politicians, bearing new regulations. Their net effect, says Mr Goulden, is to double the number of copies that are kept of every document, and to double the length of time for which they are kept. Suddenly, an average firm's storage needs will more than double annually.

EMC reckons that the surge in demand is so huge that the situation calls for one of the industry's periodic technological revolutions. During the industry's stone age, back in the 1980s, firms stored their data much as consumers with desktop computers still do today—on the same machines that also processed it. The next paradigm shift, sometime around 1990, was to split the two functions, using a model called direct-attached storage (DAS), in which each computer is attached to a separate storage “array”—in essence, a cabinet full of hard disks. If one or the other breaks, you can repair it without taking down the entire data-storage edifice.

DAS still accounts for about 70% of all data stored today. But it is already becoming passé. That is because, in the late 1990s, EMC came up with a bright idea. Companies could use their storage capacity more efficiently by creating internal networks that connect a bunch of computers on one side with a cluster of storage arrays on the other. Stephen Chin, an analyst at UBS, an investment bank, reckons that such storage-area networks (SANs) can boost the utilisation rate of hardware to as much as 80%, from about 20% in the one-array-per-computer world of DAS.

The logic of this new idea was so compelling that all of the main competitors to EMC—Hitachi, Veritas, IBM, Hewlett-Packard, and so on—have also piled into SAN. Along with its close cousin, network-attached storage (NAS), a technology pioneered by a company called Network Appliance that uses internet standards to connect computers to storage arrays, storage networks are now growing at a furious rate. They already account for almost two-thirds of the $15 billion global storage market, according to estimates by IDC, another consultancy.

EMC's boffins have now come up with a new idea: storage networks are great, but they still fall short in this brave new world of red tape by treating all information as the same, when blatantly it is not. There are this quarter's profit numbers, and then there are the payroll figures for that receptionist who was laid off ten years ago. The former is clearly more valuable, and deserves costlier technology, than the latter.

Technology buyers, with today's tight budgets, want systems that do not overcharge for storing all the junk.

EMC's answer is “Information Lifecycle Management”, or ILM. This is a souped-up and smarter version of a SAN. Now, servers are attached not only to one cluster of arrays, but to several different classes of storage devices, some top-notch and fancy, others cheaper and more dated. Special software moves data between these devices. New profit data end up in the fancy machine, for instance, while last year's profit numbers get moved down a tier. As for that receptionist's old wage slips, they go to an archive tape. And so on.

ILM explains why EMC has bought Legato, Documentum, VMware, and several other firms over the past year. All of these firms have technologies that EMC needs to deliver this new way of storing data. If things go well and EMC has a winner, the main thanks, of course, go to the politicians in Washington, who are proving so helpful to the industry even without any lobbying. Whether all of these extra data will ever be of much use to anybody remains to be seen.

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America's war on smut

More fun than phones

Mar 4th 2004 | NEW YORK
From The Economist print edition

Farewell, Pompeii

WHEN Michael Powell became chairman of America's Federal Communications Commission (FCC) in 2001, he turned his expensively educated legal mind to the morass of outdated and contradictory rules that impede the march of digital technology through America's telecoms and media industries. Three years later, that morass has thickened. Mr Powell's new media rules are on hold as Congress rolls some of them back. On March 2nd, a federal appeals court struck down the FCC's latest telecoms rules, passed in February 2003, and chided the FCC for failing to heed prior court rulings. Mr Powell, who, in this instance, had voted against his own commission's rules (they were made following a rebellion by other commissioners), cheered the judges on.

And yet despite this victory, Mr Powell has had a frustrating time. So perhaps it is not surprising that observers have begun to detect a redirection of energies from the commission's 500-odd lawyers. Mr Powell's new passion? Smut.

Unlike those fiddly telecoms and media rules, the FCC's assault on indecency has yielded gratifyingly quick results. Janet Jackson's breast, which escaped during the Super Bowl half-time show, is safely under wraps again. Radio shock jocks, such as Howard Stern and (the somewhat less famous) “Bubba the Love Sponge” have been muzzled, at least on Clear Channel, a radio giant that was roughed up in the scrap over the media rules. Mr Powell has promised Congress bigger fines and tougher enforcement, including revoking public-broadcasting licences of repeat offenders.

This may upset the likes of Mr Stern (“These are the last days of Pompeii, baby,” he predicted, darkly), but Mr Powell seems finally to have grasped that his real job is not to craft good rules but to make people happy. President Bush, who withheld his support during the battles over the telecoms and media rules, is now warming to the son of his secretary of state, Colin Powell. In an election year, fighting smut on the airwaves appeals to America's religious right, whom Mr Bush has also been courting with his proposal to ban gay marriage. Michael Copps, a Republican FCC commissioner who made trouble for Mr Powell over his media reforms, has fallen quiet. Mr Copps opposes media deregulation mainly because he thinks it encourages the spread of sex and violence over the airwaves.

Even Clear Channel, which liberals place somewhere in that dark conspiracy behind the Iraq war, has found a bit of moral high ground. On February 25th, it announced a new, “zero tolerance”, “responsible broadcasting initiative” and called for a national “decency task force”. Who cares that cable TV and the internet, which the FCC does not regulate in this way, will make these efforts somewhat moot? Trying to address this anomaly was one goal of Mr Powell's earlier rule changes—and look where that got him.

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Carmakers in Europe

The three Fs

Mar 4th 2004 | GENEVA
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Ford, Fiat and failure

Reuters

Looking for profits

THERE was an abundance of new models at the European car industry's annual get-together, the Geneva Motor Show, which opened this week. Most of them were pretty, leggy and pouting young women draped upon Alfa Romeos, Lancias and Fiats. But there were many new cars as well, as everyone showed that they had got the message that in a market sliding from recent peaks, the attention span of consumers is short. Gone are the days when a carmaker could launch a new model and expect sales to stay high for five or six years without constant efforts to refresh the product and its brand image.

Nowhere is this clearer than at two of Europe's weakest carmakers, Ford and Fiat. Both have seen their market share slump by over one-third from 12-15% a decade ago, as cutbacks on development meant an ageing product range.

In the past five years both firms have seen rescue plans and top managers come and go, as losses grew. Indeed Martin Leach, president of Ford of Europe until last year, even talked to Fiat about taking over as top man at Fiat Auto. But Ford invoked a “non-compete” clause after Mr Leach left. (Mr Leach has brought an American lawsuit, alleging the clause should not apply because he was fired.) So Fiat turned to Herbert Demel, a former boss of the Audi division of the Volkswagen group, and Ford brought back a company stalwart, Lewis Booth, who was running its Japanese associate, Mazda.

Both new bosses face big challenges. They face similar problems: demoralised staff and a bad image due to years of losses, and a lack of management credibility given the failure of past rescue efforts.

Ford lost $1.1 billion in Europe last year, and will make no forecast of recovery other than that it hopes to trim the loss to between $100m-200m this year, quite a demanding task. Mr Demel at Fiat Auto says he stands by the goal of breaking even at the operating level in 2005, and moving out of net losses a year later. Analysts hope that this year Fiat will more than halve last year's loss, to around €400m ($485m). But Fiat's fourth quarter figures, out late last month, show that Fiat Auto lost €97m, over twice what the market expected.

Oddly, given the enormity of the challenges confronting them, neither of the new bosses is planning drastic changes. Both firms have had enough of sweeping strategic redirections and swingeing cut-backs. Both Mr Demel and Mr Booth instead want to concentrate on better execution of their existing strategies. Ford Europe's decision-making needs to become crisper, for instance, while Fiat has let its dealer networks deteriorate. Mr Demel intends to improve Fiat's model range not with new grand designs but

by, for instance, offering more variations of engines and transmissions with a given model, to appeal to a wider range of drivers.

Both firms have been slow to develop niche models in a rapidly fragmenting market, and so find themselves having to catch up with nimbler competitors such as the Japanese and South Koreans. Ford was slow to notice European drivers switching to diesel engines and still does not have a compact off-roader that can compete with Honda's successful CRV model—though Mr Booth could soon plug that gap.

But this is a dreadful time to be trying to recover from a position of weakness in the European market, where massive over-capacity fosters fierce price wars. A combination of national pride, political and trade union pressure, family loyalty to carmaking (think of the Agnelli and Ford clans) and new entrants such as the South Koreans (see article) means that capacity keeps growing, or does not shrink as fast as economic pressures demand. Indeed, barriers to exit sometimes seem greater than barriers to entry in the European car industry.

Rick Wagoner, boss of General Motors, thinks that the situation is getting worse in some respects. GM's big German subsidiary, Adam Opel, is already indicating that it will offer discounts on its new Astra model, to be launched in April, which will compete head-on with Volkswagen's new Golf—itself already being discounted. In his view, the single currency and the ending of rules (known as block exemption) that restricted competition in the distribution and retailing of cars, is pushing prices down. In America, discounting has been a big factor for the past three years; now it is equally endemic in Europe.

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European carmaking

Going east

Mar 4th 2004
From The Economist print edition

A big win for Slovakia over Poland

SLOVAKIA may soon produce more cars per head of population than any other country on earth, thanks to this week's decision by Kia Motors, part of South Korea's Hyundai group, to build a new car plant there. Volkswagen is already making about 300,000 cars a year in Slovakia, including 80,000 of its pricey new Touareg off-roaders. Peugeot-Citroën is building a 300,000-car plant which it expects to be up and running in 2006. Now Kia expects to add about 200,000 cars a year by 2007. Divide that projected output by Slovakia's 5.4m population, and you arrive at a figure of almost 150 cars built per 1,000 people—half as many again as the current top producers, the Belgians, managed last year.

Car industry investment has been a success story across much of post-communist central Europe. Volkswagen is the top exporter from Slovakia, the Czech Republic and Hungary. Fiat and Daewoo are the biggest foreign investors in Polish manufacturing industry. The main attraction for investors has been the combination of low wage rates and guaranteed access to European Union markets. The countries of central Europe will join the EU in May.

Slovakia has been an increasing favourite among investors since a fragile centre-right coalition government took charge there in 1998 and won re-election in 2002. This year it cut the rate of tax on both corporate profits and personal income to a flat 19%. Poland, Slovakia's main rival for the Kia plant, lost out largely because of its poor infrastructure and its complicated and unpredictable tax system.

The Kia plant, worth an initial €700m ($850m), may well mark the end of this wave of big new car plants in central Europe (though Honda, one notable absentee, says it may yet be tempted in). But the plants already in place, or planned, should ensure a steady inflow of related investment for years. Kia expects seven or eight of its Korean suppliers to follow it into Slovakia.

One day Slovakia may start to worry about having an economy that is so dependent on a few big firms within a single industry—and one with excess capacity, to boot. But for now it is much more worried about cutting an unemployment rate that averaged 18% last year. All jobs are welcome. And besides, by helping Slovak workers prosper, the car industry can help itself. Central Europeans are still only half as likely to own a car as their western counterparts. They may yet prove as good at consuming as they are at producing.

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Face value

In the court of Queen B

Mar 4th 2004
From The Economist print edition

Liz Mohn's reign at Bertelsmann is increasingly controversial

MEDIA moguls are once again making headlines. Michael Eisner has been fighting for his job at Disney. Conrad Black is fighting for his reputation, and perhaps his freedom. By comparison, Liz Mohn, who wields power on behalf of the controlling family at Bertelsmann, Europe's biggest media company, is an unknown. But at the firm's headquarters in Gütersloh, a German town far removed from the world's media capitals, Ms Mohn is creating considerable controversy.

She is an unlikely media mogul: an engaging woman who does not hide her femininity, she argues that "emotional intelligence" is essential, and is a trait often missing in today's executives. Talking about Bertelsmann, which had a turnover of €18 billion ($19 billion) in 2002 from global operations in books, TV and music, Ms Mohn seems more interested in the firm's employee-friendly culture than in the media industry. The purpose of a firm, she says, is to offer a home to its workers. Mr Eisner and other media titans would surely laugh at so romantic a notion.

Ms Mohn rose to power at Bertelsmann via her marriage to Reinhard Mohn, whose family founded it in 1835. As a secretary, aged 17, she went to a company party and fell in love. He was 37 and, alas, had a wife at the time. They did not marry for 24 years. Her book about the relationship is called "Love Opens Hearts". Traditionally, the Mohns have limited their role at Bertelsmann. Mr Mohn believed that professional managers, not family members, should run the firm. But the recent travails of other media firms, such as Time Warner, and Vivendi under Jean-Marie Messier, changed Mr Mohn's mind somewhat. He lambasted the "vanity" of corporate managers in an article last February, months after the abrupt departure of Bertelsmann's former chief executive, Thomas Middelhoff. Mr Middelhoff's appetite for global acquisitions—he bought Random House, a publisher, and RTL Group, a European TV and radio group—risked straining the firm's finances, say Bertelsmann executives. Outsiders saw his departure as a sign that the firm would retreat from its global ambitions—and as evidence of Ms Mohn's emerging power.

In 2002, Mr Mohn, now 81, appointed his wife as the family's spokesperson. She chairs an eight-member panel that controls the family's stake, and sits on Bertelsmann's supervisory board. Top Bertelsmann executives insist that she has no say over strategy or the daily operations of the firm's businesses—that is still left to professionals such as Gunter Thielen, the chief executive. But few people familiar with the firm doubt that Ms Mohn is the person with the ultimate power at Bertelsmann nowadays, whether through use of the family's veto powers or, more often, through informal contact with executives.

Is Ms Mohn's rise good for Bertelsmann? Given the big mistakes made in recent years by so many bosses

of publicly held media firms, some conservative family influence may be no bad thing. But the danger is that she will urge too cautious a strategy on the firm or, worse, as her critics fear, drive away talented professionals by interfering too much.

Her main aim, she says, is to safeguard the firm's corporate culture, and to foster growth. At the moment, growth poses the main challenge. Bertelsmann's results for 2003, due soon, are expected to show mostly flat revenues. Of the six divisions—book clubs (DirectGroup), books (Random House), TV (RTL Group), music (BMG), magazines (Gruner + Jahr), and printing, storage and distribution (arvato)—television is probably the area with the most potential for rapid growth. There have been talks about buying Channel Four in Britain, where RTL already owns Channel 5. Music is under threat from digital piracy and Bertelsmann has decided to merge BMG with Sony Music. If the merger gets past competition authorities, it will cut costs but not grow revenues much. As for books, Bertelsmann hopes to expand its clubs in new markets such as China and Russia. DirectGroup already has 1.5m readers around Shanghai. No adventures into other bits of the media industry are planned.

Queen of hearts

According to Ms Mohn's enemies, of which there are a few, she is an emotional woman intent on increasing her power and that of her children. They say that she is like the queen in Lewis Carroll's “Alice in Wonderland”, shouting “Off with his head!” if anyone questions her judgment. Gerd Schulte-Hillen, chairman of the supervisory board, resigned at the end of last year after writing in *Der Spiegel*, a German magazine, that Bertelsmann could turn into a “matriarchal dynasty”. Such complaints, reply Bertelsmann insiders, come from old men angry at being pushed out. Her enemies may exaggerate her influence: as well as overseeing the firm, she devotes much time to the Bertelsmann Foundation, which sponsors studies in social policy, and to other charities, such as one she founded for stroke patients.

Even so, some Bertelsmann insiders concede that there is some truth in what Ms Mohn's critics say. Perhaps because she was put in her role by her husband, one senior executive says privately, she is sometimes insecure, and so can react badly if her judgment is questioned. Senior managers at Bertelsmann, says the executive, are content with the extent of Ms Mohn's influence as it is now, but they worry that she will try to give her children a bigger role at the company. Ms Mohn answers that there is no immediate prospect of this since her eldest son, Christoph, is 38 and she thinks that chief executives should be 50 or so.

From 2005, Groupe Bruxelles Lambert (GBL), a holding company that owns 25% of Bertelsmann's equity, can demand an initial public offering of the firm's shares. Ms Mohn insists that the family would not sell its shares in any IPO, and would want to exercise its right of first-refusal to buy GBL's shares. So, for better or worse, Ms Mohn's reign at Gütersloh seems likely to continue for some time yet.

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Argentina and the IMF

Which is the victim?

Mar 4th 2004 | WASHINGTON, DC
From The Economist print edition

Alamy

Acute soul-searching at the International Monetary Fund

ON MARCH 9th Argentina is supposed to make a scheduled repayment of money it owes to the International Monetary Fund. The date inspires the keenest interest, not least among financial ghouls for whom the only more pleasurable thing than an incipient financial crisis is a full-blown one. Not only is the sum—$3 billion dollars in interest and principal—rather large by the standards of most instalment plans, but Argentina's president, Nestor Kirchner, is also threatening not to make the payment at all if the Fund does not first promise immediately to send the money back again, part of a lending programme agreed last September. The Fund can only do that if it deems Argentina to be making progress towards financial normality—and that is something of a stretch.

If no payment is made, the IMF must set in train a process that would eventually declare Argentina in default, and that would be uncomfortable in the extreme for the IMF. The size—$16 billion has been lent to Argentina—would be unprecedented, with consequences for the Fund's reputation and for the way it does business. The World Bank and the Inter-American Development Bank, with over $20 billion of exposure between them, would have to make immediate provisions. Thus does Argentina have the Fund over a barrel. A growing number of the Fund's shareholders want to call Argentina to account.

Certainly, the Fund has got into a position that its own experts would condemn if it were a commercial bank. Some 15% of the Fund's total lending is to Argentina, a huge concentration. And with the $13.5 billion, three-year facility agreed in September, the Fund is in effect continuing to lend large sums to what is in effect an insolvent debtor, on the understanding that it will use this to repay past loans.

Of course, the Fund is not a commercial bank. Its job is to help countries in crisis precisely when private lenders are fleeing. This involves large injections of cash to help stabilise a spiralling economy. In most instances, the Fund has been successful. Think of Russia, Indonesia and South Korea, whose crises in the late 1990s ended happily. More recently, Brazil and Turkey were helped with big IMF packages and are making admirable recoveries. Argentina, as ever, is *sui generis*.

Naturally, conditions have been attached to Argentina's new borrowing, which has been broadly constant since the crisis of 2001. That crisis led to a collapse of the banking system, a collapse of the currency that had been fixed to the dollar, the biggest-ever sovereign default and (from peak to trough) the

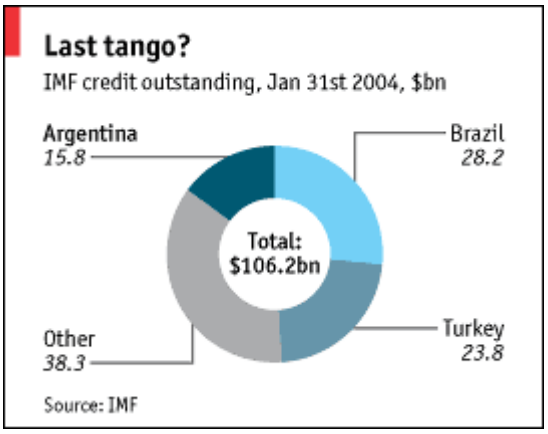
shrinking of the economy by a fifth.

A checklist of progress has been drawn up that needs to be met before new slugs of IMF cash are supposed to be paid out. But no one claims that these are the most stringent conditions ever to have been imposed by the Fund, let alone on a country in arrears. And it takes a stretch of the imagination to say that Argentina is abiding fully even by these weak conditions. A Fund mission returned this week from Buenos Aires to report on the progress of economic and financial reforms.

When the Fund's country directors consider the report, they will probably declare Argentina to be on track to receive a second amount of money—though chiefly because of American pressure. Yet for such a clubby institution, the number of dissenters is rising. At the last board meeting, in late January, three G7 members, Japan, Italy and Britain, broke precedent and abstained from voting for more money.

Where do they fault Argentina? First of all, for the vituperative attacks on the IMF, and in particular on the Fund's deputy managing-director, Anne Krueger, an academic from the tough-love school of economics. If Mr Kirchner's team thought that the attacks would drive a wedge between Ms Krueger and her pragmatic boss, Horst Köhler, the attempt backfired: the Fund delivered a rare and stern rebuke.

Argentina is able to declare that it is on track with economic and fiscal targets. Growth surged to an annual 8% rate late last year, ensuring the goal of a “primary” budget surplus, (ie, before interest payments), of 3% in 2004. But the country is on much shakier ground over three other issues: banking reform, raising charges at foreign-owned utilities and, most important, dealing with the overseas creditors who own Argentinian bonds with a face value of $88 billion.



Most bondholders are hardened speculators in the world's riskier assets—just the type who have recently made a killing in neighbouring Brazil. But they also include over 400,000 Italians, including pensioners, who failed to equate the bonds' high yields with commensurate risk. This has now become an embarrassment for the Italian government, and may soon be one for the IMF: Italian creditors threaten a legal challenge to the Fund's privileged position at the head of any queue of creditors, a position it enjoys because it lends only in times of crisis and cheaply.

The issue of the private creditors will loom at the next board meeting. It is the Fund's own policy, when lending to a country in default, that the borrower must be “making a good faith effort” with its creditors. When overdue interest is taken into account, Argentina proposes to pay back just one-tenth of what it owes foreign creditors. This is a tiny fraction compared the amounts offered by other big countries that have defaulted in recent years. This week, Mr Kirchner said that Argentina could not “by miracle” increase resources to pay creditors, and that he was not going to pay “with the suffering and hunger of the people”. Another way of paying more, Mr Kirchner's economy minister, Roberto Lavagna, has wryly suggested in private, is to string out the IMF's repayments timetable, a notion that horrifies the Fund.

As a sop, Argentina sent an observer last week to a meeting of a group representing holders of two-thirds of its foreign debt. That is positive, says the Fund, and the board may even stretch the bounds of credulity to deem it in good faith.

To restore the Fund's credibility, some staff, board members and outside observers call for new toughness. Michael Mussa, formerly the Fund's chief economist, says that the IMF should have made the point sooner that, while a primary surplus of 3% may have been appropriate while growth was low, a substantially larger surplus is needed in future—Brazil's target, after all, is 4.25%, while Turkey's is double Argentina's. A larger surplus should, in turn, be used to offer a better deal to foreign creditors. And Argentina's feet should be held closer to the fire over the banks and the utilities. For the Fund, the stakes are high. As one member says: “We are in a very awkward position in making sure that the emperor remains dressed”.

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Financial reporting

AIG's accounting lesson

Mar 4th 2004 | NEW YORK
From The Economist print edition

The world's largest insurance company shows how to polish a profits statement

A GREAT delusion fostered by recent corporate scandals is that companies will now release results in a way that is comprehensible to more than the few people capable of reading between the lines. Had anyone believed this, AIG, America's biggest insurance company, has produced a tutorial on how a fall in profits can be presented as a small gain, and a small gain as a whopping improvement.

Because of its stature as one of the biggest financial companies, AIG's results have particular resonance in the markets. On February 11th, it trumpeted a 68% increase of net income last year, a figure that was widely reported. The company's stock, which had been steadily rising for three months, leapt up. Struck by the huge gains in profits, David Schiff, who runs an eponymous industry newsletter, *Schiff's Insurance Observer*, took a closer look at the announcement and calculated that if AIG had used the same methodology as it had used in the past, earnings would have been up a respectable, but far less impressive, 15%.

This, in turn, prompted Mr Schiff to take a deeper look at AIG's record. In the fourth quarter of 2002, AIG began its announcement with net income, but then helpfully provided an adjusted number that excluded realised losses on its securities portfolio and a large charge-off for miscalculating previous losses. The upshot was that a 3% increase in net income could, according to AIG, be plausibly viewed as a 12% increase. Mr Schiff says a more plausible case could be made that the various adjustments were superfluous and that, in reality, earnings declined by 4%.

Going back over four years, Mr Schiff concluded that AIG has been able to improve the appearance of its profits growth in 19 out of the past 20 announcements, by shifting the emphasis in its presentation of results between four different measures of profits. It stated net income, of course. But sometimes it offered an adjusted figure highlighting realised investment returns. But not every time. Sometimes it highlighted various losses, at other times, it did not. None of definitions of profits were poor ones. The effect of the switches, however, was to create a far more positive impression of the company's growth.

Providing AIG with the latitude for this numerical dexterity are the “pro forma” calculations that commonly appear at the beginning of company reports, and which do not have to conform to generally accepted accounting principles (GAAP). Done fairly, pro forma numbers provide a clearer path through America's increasingly complex accounting rules. But they can also be used to paint a company's performance in an overly flattering light. This problem is broadly recognised, but present legal constraints have real teeth only in the case of fraud, a high legal hurdle.

Last year, as part of the new Sarbanes-Oxley legislation, the SEC passed rules to crack down on pro-forma abuses. AIG makes reference to the new requirements, noting that its pro forma statements were not in accordance with GAAP, and a reconciliation could be made using subsequent tables. Although this takes work, securities laws do not say that understanding a company must be easy.

AIG also comes under the authority of the New York Stock Exchange, on which it is listed and where, until recently, its chief executive, Hank Greenberg, was a director. As Mr Schiff points out, the NYSE's manual for listed companies states that “changes in accounting methods to mask” unfavorable news “endangers management's reputation for integrity”. The exchange rarely takes action, however, perhaps because the penalties—suspension or delisting—are so draconian. In any case, reporting issues, says the exchange, fall mainly under the SEC's sway. For its part, AIG says that it “always gives a complete accounting of its results that readily enables all interested investors and reporters to compare results with the prior year.”

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Alan Greenspan

Unusually clear

Mar 4th 2004
From The Economist print edition

Straight talk from the Fed's boss

FOR a man who has made a career of balanced nuance, Alan Greenspan, the chairman of the Federal Reserve, has suddenly become, if not a model of clarity, then certainly blunter than is his norm. This week he said that it would be unwise for China to float its currency, the yuan, because such a move might cause money to flee China, destabilising its “quite weak” financial system. An innocuous enough comment, perhaps, except that the Bush administration has been pushing China very hard to revalue the yuan, and in times past Mr Greenspan would have been decidely more guarded in an election year.

Mr Greenspan also had a go at the Chinese and Japanese central banks, which, he said, could not carry on intervening in the currency markets as much as they have, since it will cause inflation (or, as he put it, “The monetary consequences of continued intervention could become problematic”). Japan's dollar reserves, said Mr Greenspan, were already “awesome”, a word not usually employed by the careful central banker.

There is more. America's budget is poised to explode with deficits thanks to over-generous pensions and health benefits. Raise taxes? No, said Mr Greenspan: time to think seriously about cutting benefits and raising the retirement age. An option obvious to any economist, but not to politicians on the election trail and keen to avoid offence.

Unusually, this week Mr Greenspan even strayed far from prepared remarks. In a question-and-answer session following his speech in New York, he was asked whether the Fed has been too lax in preventing asset-price bubbles. Probably not, he said, but there is not enough experience in an era of paper money to know exactly how to deal with such things. “Human nature” lies at the heart of the problem, he said, “and I don't know what monetary policy we can implement to alter human nature.” Some habits are hard to change.

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About sponsorship

International accounting

Fair's fair

Mar 4th 2004
From The Economist print edition

A row over accounting for derivatives has huge consequences

ARGUABLY, says one accountant, the most important man in capitalism at the moment is Sir David Tweedie, the pugnacious Scotsman at the helm of the International Accounting Standards Board (IASB). By March 31st, the IASB will release a set of rules that will be used, ultimately, by some 90 countries including, from 2005, all 7,000 listed companies in Europe. Even America, not known for co-operating on international projects, has been trying to mesh its rules with those of the IASB.

But a row over two of the IASB's many new standards—IAS 32 and 39, which cover financial instruments, especially derivatives—threatens to wreck the chance of getting a single set of accounting standards around the globe. The European Commission has threatened to reject the two standards thanks to heavy lobbying by banks and insurers, especially French ones.

The costs of not agreeing on these standards would be high. The Securities and Exchange Commission has been contemplating letting European firms listed in America use international rules instead of American ones. It will not do so without robust treatment of financial instruments. Worse, without them, America's Financial Accounting Standards Board, which sets America's accounting rules, is likely to give up trying to converge American standards with international ones. Eleventh-hour negotiations between European lobbyists and the IASB are in full swing.

The dispute is at root a question of how best to value financial assets and liabilities. At the moment these are valued at their original cost. That might have made some sense when the markets for these were small. It makes very little sense now that financial markets are huge and liquid.

The most glaring omission in European companies' accounts is that these contain almost no mention of derivatives (options, futures and the like), the use of which has grown hugely in recent years. According to the latest report from the Bank for International Settlements, the value of outstanding over-the-counter derivatives globally is $7.9 trillion. Banks and insurance companies are especially heavy users.

To value these at their original cost would be absurd. This is because, although the price of these can be tiny, the exposures are not—especially once markets have moved. So the IASB wants to put derivatives and other financial instruments on the balance sheet at their “fair value”—the price a willing buyer would pay for them in the market. The result would be far more transparent accounts.

But also more volatile ones. European banks and insurers, anxious to appear stable, argue that such volatility is “artificial” and misleading, because it ties day-to-day fluctuations in markets to their long-term businesses. They argue, too, that for those financial instruments that are not traded on liquid markets, values are unreliable. And some French bankers privately gripe that IASB's rules, modelled on American ones, do not take into account “European circumstances”—whatever these might be.

The IASB admits that IAS 32 and 39 are imperfect. But it insists that injecting more fair value into accounts is much the best course. “The only other option is historic cost,” says an adviser to the IASB, “And as derivatives show, this is just wrong.”

It is not alone in the belief that investors should decide for themselves what constitutes artificial volatility. “If banks don't want to disclose these fair values, they should not turn to the public markets for money,” says Jeannot Blanchet, an analyst at Morgan Stanley. And bankers' gripes that some products are difficult to price is odd given how much they are paid to do just this every day. Indeed, a few European banks, such as UBS and Dresdner, already use international standards.

In fact, European banks seem to dislike fair-value accounting for another reason. They have long “smoothed” their profits, to make themselves look stable. Booking financial instruments at fair value would expose this practice for the lie that it is—a prospect that sends shivers through banks across Europe. All power to Sir David.

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About sponsorship

Stock exchanges

Dutch auction

Mar 4th 2004
From The Economist print edition

Can the LSE snatch Dutch equities trading from Euronext?

THE gloves are off in the fight for supremacy among Europe's big stock exchanges. In the boldest move yet against its two big rivals, the London Stock Exchange (LSE) is trying to lure away trading of Dutch equities from one of them, Euronext, a bourse born of a merger of the Belgian, Dutch and French stock exchanges, by aggressively cutting the price of trading in Dutch shares. Amsterdam is the first skirmish in what could become a price war between the LSE, Euronext and Deutsche Börse, Germany's stock exchange.

Competition has become stiffer since all the big European bourses listed themselves in 2001 and started to be run as proper companies. So far, however, none has mounted a direct challenge to any of the others. If the LSE succeeds in snatching trading in Dutch shares, Euronext and Deutsche Börse will have to become more aggressive as well. All this is splendid news for investors: they will benefit from cheaper, more efficient trading.

The Dutch experiment started over a year ago when unhappy Dutch brokers approached the LSE. They were miffed that Euronext, which is run by a Frenchman and based in Paris, was giving privileges to French clients. According to the LSE, Dutch brokers also griped about prices, glitches and customer service.

Still smarting from losing Liffe, London's financial derivatives exchange, to Euronext, the LSE saw an opportunity to steal a march on its rival. It put together an attractive package for the Dutch. Membership of the LSE would be free, and trading costs would be 40% lower than at Euronext. They would even be able to use their existing back-office organisations. The LSE's existing stockbrokers are cross that newcomers have such better terms.

All the London-based Dutch banks, which account for about 40% of trading in Dutch equities, have signed up for the free membership offer that expired on February 27th. More than a dozen stockbrokers in the Netherlands did so too. Attractive though these terms are, Dutch brokers' only real interest may be in using them to get better ones from Euronext: last year, they threatened to pull their options business out of Euronext.

Still, London's move has a better chance of success than previous attempts to grab trading from other exchanges. In 2001, the Swiss stock exchange launched Virt-X, an electronic exchange that it hoped would lure a large share of trading in European shares with cheaper prices. It did not. But as Europe's biggest bourse, the LSE has more clout. Moreover, traders prefer its SETS trading system.

Never before has one electronic share market nabbed most of another one's business. According to Huw van Steenis, an analyst at Morgan Stanley, once a market has become liquid, it is hard for competitors to grab trading from it: electronic order books and economies of scale give the incumbent a strong advantage.

But then none has tried so aggressively as the LSE. Dutch equities are due to start trading in London on May 24th. Benn Steil, an expert on stock exchanges, thinks that Dutch stockbrokers would have to move *en masse*. Dutch banks deny any such concerted action. Much depends on the aggressiveness of Euronext's reaction.

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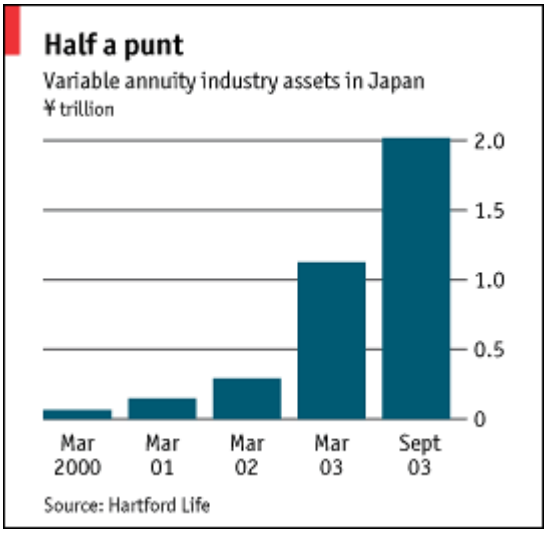
Variable annuities in Japan

Rich pickings

Mar 4th 2004 | TOKYO
From The Economist print edition

For those that sell them, at least

IT IS no surprise that the elderly and the youthful alike fret about their savings in Japan. The country's crumbling public pension system hardly inspires confidence. So the booming popularity of an investment that allows investors to benefit from a rising stockmarket while protecting them if it stumbles should come as no surprise. Nor should the fact that there is less to such investments than meets the eye.



Holdings of “variable annuities”, which were introduced in Japan in 1999, almost doubled to ¥2 trillion ($18.9 billion) in the six months to September 2003. In essence a mutual fund with an insurance guarantee, variable-rate annuities have proved so popular because savers have been reluctant to dive into a stockmarket that, until recently, had fallen more or less steadily for years. They also want to earn more than the near-zero interest rates available from putting their money into bonds.

There is no doubt that variable annuities are good for those who peddle them. Distributors earn 4-6% in commissions. Though these costs are mostly shouldered by the insurance company that created the annuity, the latter pass these and other costs to customers, by charging yearly fees of 3-3.5% of the value of assets.

For now, foreign outfits dominate the business. Hartford Life, an American insurer which came to Japan in 1999, now has 27% of the market, and sells mostly to wealthy, elderly folk. Gregory Boyko, chief executive of Hartford Life International, says its Japanese operations started making a profit last year, several years earlier than it had planned. Small wonder that local life insurers are trying to muscle into the business.

A good business for insurers, then, but are variable annuities a good investment for savers? Certainly, they offer them the possibility of high growth while preserving their capital. Sellers tout other advantages, such as tax deferrals on capital gains and death benefits of up to ¥5m per inheritor, since annuities are exempt from inheritance taxes. Thanks to deregulation in 2002, customers can now snap up variable annuities at their local banks.

Regulators are trying to make sure that insurers set aside enough money to keep their promises: there are squabbles over new regulations on reserve requirements, to be implemented by next April. Insurers argue that these are too strict.

A bigger concern is whether fees are excessive compared with prospective returns. After all, 20-year government bonds yield less than 1.9%, and although the stockmarket has jumped recently, the economy is still fragile. Those who bought variable annuities a few years ago are already losing money on them. As with almost all such products the world over, financial institutions make their money from bundling two simple products together. Mrs Watanabe would be better off sticking most of her money in a bank and buying an option on the stockmarket with the rest.

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Trade

Transatlantic tiff

Mar 4th 2004
From The Economist print edition

The spat between America and Europe heats up

IN DECEMBER, George Bush caved in like warm Camembert to threats of European Union (EU) retaliation over illegal steel tariffs. That may have had something to do with the fact that Europe planned to slap the heaviest duties on products made in states that Mr Bush needs badly to win in November's presidential election. Suddenly, he decided that America's steel industry was in fine shape, thanks very much, and sued for peace.

AP

Zoellick and Lamy tight-lipped

But only on this issue. Trade wars are spreading. From March 1st the EU imposed tariffs on $4 billion of American exports, the biggest authorised sanctions in the World Trade Organisation's (WTO) history. These latest fines are over so-called FSC-ETI (Foreign Sales Corporation and Extraterritorial Income) tax breaks for American exporters, which were ruled illegal by the WTO two years ago. The tariffs start at 5% and rise by 1% each month over the next year to 17%.

Although the EU had notified Washington of its plans last autumn, Congress has done next to nothing to stop the damage. Pascal Lamy, Europe's trade commissioner, travelled to Washington last week to encourage Congress to fix the tax laws soon. Fat chance: this week, it greeted the most recent trade sanctions with a shrug.

Forthcoming elections are largely to blame. Protectionist sentiment is running higher than ever in Washington, with worries over the outsourcing of white-collar jobs and talk of “Benedict Arnold” companies who move their headquarters abroad in search of lower taxes.

Although the Senate has finally begun to debate a bill that would eliminate the offending parts of FSC-ETI, it will not scrap these until May at the earliest, and will create even more complexity in corporate taxes in the process. The bigger obstacle is the House of Representatives. The main bill there, sponsored by a Republican, is larded with pork and will lose billions in revenue at a time when the budget deficit is widening. Worse, Democrats want a bill that helps keep American manufacturing jobs. Moreover, they are in no hurry to agree to a new law, since they think the woes of exporters, and their laid-off workers, can only help them at the polls. Little progress is expected by the time the Congress goes on holiday later this month.

But the battle over export tax breaks is not the only transatlantic tiff. In another case, the WTO ruled last

month that the EU can sue America for damages caused by its anti-dumping laws. And there is yet a further dispute at the WTO over America's hormone-treated beef, which the EU wants labelled to protect its consumers. America has recently banned French foie-gras: apparently it is not up to scratch.

Both Mr Lamy and Robert Zoellick, his opposite number in America, are playing down the significance of these disputes. Mr Lamy notes that the FSC-ETI penalties cover only 1% of American trade with the EU. And an apparently insouciant Mr Zoellick has been jetting around the world signing bilateral deals hither and thither.

This week, he agreed a new one with Morocco, covering agricultural goods and intellectual property rights. But there have been numerous other deals recently: with Australia, the Central American Free Trade Area and Chile, to name but three.

Although all of these bilateral deals would seem to go against the whole idea of multilateral free trade, Mr Zoellick seems, in fact, to be trying to gather support from poor countries to restart the stalled Doha round of trade talks, which ground to a halt after a disastrous meeting in Cancún, Mexico last September. Rising tension across the Atlantic bodes ill for getting the talks restarted.

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About sponsorship

Privatisation in India

Cashing in

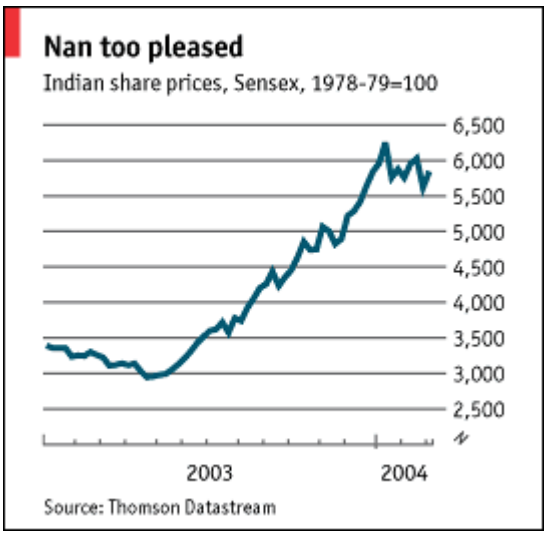
Mar 4th 2004 | DELHI
From The Economist print edition

The market has to absorb a flood of government shares

Get article background

IN A country with a strong tradition of socialist planning, the Indian government's privatisation programme has always had its critics. You might not expect to find them in the Ministry of Disinvestment, which is responsible for it. Yet, as the government rushes to sell shares in six enterprises, the ministry's own website carries a telling critique of its strategy, if from the other end of the political spectrum. Selling minority stakes, it notes, give the impression "that the main objective of the government is to obtain funds for reducing its fiscal deficit, and not to improve performance or governance". Especially, it might have added, if the fiscal year ends on March 31st, an election is due on April 20th, and the offers for sale are bunched in an unprecedented splurge between February 20th and March 13th.

Three of the sales are of the government's residual minority stakes in firms already sold to strategic investors. The other three dilute the government's majority shareholding. They are the Dredging Corporation, the Gas Authority of India, a transporter of natural gas, and, much the biggest, the Oil & Natural Gas Corporation (ONGC), an exploration and production firm. The government hopes to raise 145 billion rupees ($3.2 billion) from the six sales, with about seven-tenths of that coming from the sale of 10% of ONGC, which would reduce the government's shareholding to just under 75%.



In its election campaign (see article), the ruling Bharatiya Janata Party is boasting of its economic prowess. One blot on its record is a massive fiscal deficit. The finance minister has forecast that the central government's deficit will fall from 5.4% of GDP in the last fiscal year to 4.8%. To meet that target, it needs to meet its privatisation budget. After a boom year for the stockmarket, the temptation to cash in some of the government's holdings proved irresistible. Despite recent stockmarket falls, the government may meet or better its budget for privatisation receipts (132 billion rupees, or nearly 0.5% of GDP) for the first time since 1998-99. The ONGC offer only opened on March 5th, but the others, after a slow start, are now oversubscribed.

The Disinvestment Ministry points to two other drawbacks to the government's approach: it raises less money than it would by transferring control, and reduces the price it may be able to secure in the future from a strategic investor. But Arun Shourie, the disinvestment minister, while agreeing with these criticisms, points out that full privatisation is anyway hampered by a judgment from the Supreme Court last September that some government asset-sales require parliamentary approval, which they would not get.

Despite his reservations, Mr Shourie, a former journalist and World Bank economist, has thrown himself into the sales effort. Late last month he uncovered what he says was a concerted attempt by a handful of firms to "manipulate the market down", by heavy selling of shares in the final 45 minutes of trading over successive days. Some stockbrokers are scornful of the theory, attributing the initially disappointing results to the government's hectic time-table, and to profit-taking. Investors, they say, wanted to free up money to subscribe to the government offers, which were expected to result in sales at a discount to the market price.

Whether or not he was right, Mr Shourie's well-publicised intervention and threats to name, shame and punish the alleged manipulators did mark a turning-point in enthusiasm for the offers. The timing, however, may have been coincidental: the economy is booming, liquidity is abundant, and sentiment about India's prospects, at home and abroad, is more positive than for many years. It would be hard to make a complete mess of selling some of the government's prize assets.

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Economics focus

A modest undertaking

Mar 4th 2004
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Governments have limited resources for addressing the world's economic challenges. What should come first?

THIS week, Denmark's Environmental Assessment Institute, together with *The Economist*, announced plans to ask some of the world's leading economic thinkers a very awkward question. Policymakers face enormous demands on their aid budgets—and on their intellectual and political capital as well—when they try to confront the many daunting challenges of economic development and underdevelopment. Climate change, war, disease, financial instability and more all clamour for attention, and for remedies or palliatives that cost money. Given that resources are limited, the question is this: What should come first? Where, among all the projects that governments might undertake to make the world a better place, are the net returns to their efforts likely to be greatest?

It is easy to see why this question has rarely, if ever, been confronted head-on. Calculating the costs and benefits of acting on any one of the very many proposals for international action that are mooted from time to time is difficult enough. Attempting to impose a common cost-benefit framework on many such possibilities so that they can be meaningfully compared one with another is an ambitious exercise, to put it mildly. But that is what the institute, headed by Bjorn Lomborg (familiar to readers of this page as the author of “The Skeptical Environmentalist”), and abetted by this newspaper, has resolved to attempt—in a project dubbed, in an access of optimism, the Copenhagen Consensus.

First, the institute assembled a panel of nine of the world's most distinguished economists. Four of them are Nobel laureates: Robert Fogel and James Heckman, both of the University of Chicago; Douglass North of Washington University, St. Louis; and Vernon Smith of George Mason University. The other five can expect to pick up a few more Nobels between them in due course: Jagdish Bhagwati of Columbia University; Bruno Frey of the University of Zurich; Justin Yifu Lin of Beijing University; Thomas Schelling of the University of Maryland; and Nancy Stokey of the University of Chicago. This panel will meet in Copenhagen in May to establish priorities for action on ten issues.

The panel chose these issues from a much longer list drafted by the institute, drawn in turn from aims identified in various contexts by the United Nations and other international bodies. Then a series of distinguished experts in each field was commissioned to write a review paper on each issue and on actions that might feasibly be taken in response, with due emphasis on costs and benefits. The topics and principal authors are:

•**Climate change**, by William Cline of the Centre for Global Development.

•**Communicable diseases**, by Anne Mills of the London School of Hygiene & Tropical Medicine.

•**Armed conflicts**, by Paul Collier of Oxford University.

•**Education**, by Lant Pritchett of the Kennedy School.

•**Financial instability**, by Barry Eichengreen of the University of California, Berkeley.

•**Governance and corruption**, by Susan Rose-Ackerman of Yale University.

•**Malnutrition and hunger**, by Jere Behrman of the University of Pennsylvania.

•**Population and migration**, by Philip Martin of the University of California, Davis.

•**Sanitation and water**, by Michael Hanemann of the University of California, Berkeley.

•**Subsidies and trade barriers**, by Kym Anderson of the University of Adelaide

Each paper will next be subject to critique by two further experts. In May, the papers and commentaries will be submitted to the nine, who will argue about it all for five days and then pronounce. As the meeting draws nearer, and the papers are published, we will run articles about them (some in this space; others on our website). And in due course we will, of course, report on the outcome of the top panel's deliberations.

Get serious

Can such an exercise ever hope to yield useful results—let alone the hoped-for “consensus”? It is entirely reasonable to be sceptical, such are the pitfalls of cost-benefit analysis. Aside from the technical difficulties entailed in valuing extremely distant and uncertain benefits (as in the case of action to mitigate climate change, for instance), not to mention the problems surrounding the choice of discount rate (so that costs and benefits extending over time can be expressed on a consistent present-value basis), there are also ethical puzzles involving the valuation of years of extra life or better health. It is little wonder that governments prefer to let such provoking questions lie quiet and unnoticed. And if the Copenhagen panel of experts does manage, despite these difficulties, to reach some kind of substantive agreement, there is little reason to suppose that politicians or the wider public will go along with a consensus reached among a group of economists, a tribe renowned in the wider world for its desiccated view of human welfare.

Yet the fact remains that governments already have very large aid budgets, which they apportion somehow among competing demands—doubtless paying more attention to the fluctuating pressures of press and television than any consistent or coherent method of analysis. Implicitly, their decisions already reflect underlying estimates of costs and benefits, but the process is arbitrary and closed to inspection. Even if the Copenhagen Consensus project does no more than force that fact to be acknowledged, it will have been worth the trouble.

A website for the Copenhagen Consensus can be found at www.copenhagenconsensus.com. Articles, assorted links and other related material will be posted over the coming weeks at www.economist.com/copenhagenconsensus.

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About sponsorship

Spiritual neurology

A mystical union

Mar 4th 2004
From The Economist print edition

Bridgeman

A small band of pioneers is exploring the neurology of religious experience

THE renowned French neurologist Jean-Martin Charcot once scribbled some notes while under the influence of the psychedelic drug mescaline. Colleagues were puzzled because among the scribbles was the incongruous statement, written in English, “I love you Jennifer”. Still more puzzling was the question: who was Jennifer? That was not the name of his wife nor of anyone else they thought he knew. Despite the mystery, Dr Charcot's colleagues never thought to question the scientific value of the experiment.

The same cannot be said of Mario Beauregard, a brain-imager from the University of Montreal, who has also experimented with mescaline. But that is because Dr Beauregard is interested in one particular, and far more contentious, aspect of the mescaline experience—the capacity of the drug to inspire feelings of spirituality or closeness to God. It was experiments of the type carried out by Charcot that opened up the possibility of investigating spirituality in a scientific manner, by showing that it could be manipulated. Dr Beauregard is following up on these by trying to discover where in the brain religious experience is actually experienced.

In the first of what he hopes will be a series of experiments, Dr Beauregard and his doctoral student Vincent Paquette are recording electrical activity in the brains of seven Carmelite nuns through electrodes attached to their scalps. Their aim is to identify the brain processes underlying the *Unio Mystica*—the Christian notion of mystical union with God. The nuns (the researchers hope to recruit 15 in all) will also have their brains scanned using positron-emission tomography and functional magnetic-resonance imaging, the most powerful brain-imaging tools available.

The study has met with scepticism from both subjects and scientists. Dr Beauregard had first to convince the nuns that he was not trying to prove or disprove the existence of God. Scientific critics, meanwhile, have accused him of being too reductionist—of pretending to pinpoint the soul in the brain in the same way that the Victorians played phrenology as a parlour game by feeling the contours of each others' skulls to find a bulge of secretiveness or a missing patch of generosity.

Dr Beauregard does not, in fact, believe there is a neurological “God centre”. Rather, his preliminary data implicate a network of brain regions in the *Unio Mystica*, including those associated with emotion processing and the spatial representation of self. But that leads to another criticism, which he may find

harder to rebut. This is that he is not really measuring a mystical experience at all—merely an intense emotional one.

This is because the nuns are, so to speak, faking it. They believe that the *Unio Mystica* is a gift of God and cannot be summoned at will. Most of them have only experienced it once or twice, typically in their 20s. To get around this, Dr Beauregard has drawn on previous experiments he carried out with actors, which showed that remembering an intense emotional experience activates the same brain networks as actually having that experience. In effect, he has asked the nuns to method act, and they are happy to comply.

God and the gaps

Andrew Newberg, a radiologist at the Hospital of the University of Pennsylvania in Philadelphia, who has scanned the brains of Buddhists and Franciscan nuns in meditation or at prayer, is familiar with such criticism. He says that, because religious experience is not readily accessible, unusually high standards of experimental rigour are demanded of this kind of research. “We have frequently argued that many aspects of spiritual experiences are built upon the brain machinery that is used for other purposes such as emotions,” he says. “Very careful research will need to be done to delineate these issues.”

But that is not a reason for shying away from them, says Olaf Blanke of the University Hospital of Geneva, Switzerland, whose paper in the February edition of *Brain* describes how the brain generates out-of-body experiences. He points out that plenty of research has been done into another kind of bodily illusion, phantom limbs. This has identified the brain mechanisms responsible, and even suggested treatments for these disabling “appendages”. The same cannot be said of out-of-body experiences, which can also be disturbing, but occupy a neglected position between neurobiology and mysticism.

Having subjected six brain-damaged patients to a battery of neuro-imaging techniques, Dr Blanke's group concludes that damage at the junction of two lobes of the brain—the temporal and parietal—causes a breakdown of a person's perception of his own body. The boundary between personal and extrapersonal space becomes blurred, and he sees his body occupying positions that do not coincide with the position he feels it to be in.

Some patients give this a mystical interpretation, some do not. What is interesting is that several of the patients suffered from temporal-lobe epilepsy. An association between this kind of epilepsy and religiosity is well-documented, notably in a classic series of neurological papers written by Norman Geschwind in the 1960s and 1970s. Dr Blanke argues that all the lobes of the brain play a part in something as complex as religious experience, but that the temporo-parietal junction is a prime node of that network.

The parietal lobe is thought to be responsible for orienting a person in time and space, and Dr Newberg also found a change in parietal activation at the height of the meditative experience, when his volunteers reported sensing a greater interconnectedness of things. At the end of each recording session, Dr Beauregard asks the nuns to complete a questionnaire which gauges not only feelings of love and closeness to God, but also distortions of time and space. “The more intense the experience, the more intense the disorganisation from a spatio-temporal point of view,” he says. Typically, time slows down, and the self appears to dissolve into some larger entity that the nuns describe as God.

Whether the *Unio Mystica* has anything in common with out-of-body experiences, or even phantom limbs, remains to be seen—though all are certainly mediated by the brain. According to Dr Blanke, this is only just starting to become an accepted topic of research in neuroscience. Perhaps its acceptance will depend ultimately on how the knowledge is used. Dr Beauregard may have done himself a disservice by arguing that mystical union should not be reserved for the spiritual few, but should be made available to everyone, for the benefit of society. Perhaps, like Charcot, he should stick to describing it, however incongruous the result may be.

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About sponsorship

Black holes

Hair today

Mar 4th 2004
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Just what is inside a black hole?

EVER since John Wheeler coined the phrase “black hole”, these complex astronomical phenomena have held a peculiar fascination for physicists and laymen alike. Physicists are interested because of the extreme conditions inside and at the edge of a black hole—a region where gravity is so strong that nothing was thought to be able to escape. These conditions test the intersection between the two theories that lie at the heart of modern physics: quantum mechanics and Einsteinian gravity (the latter known, rather confusingly, as the general theory of relativity). Both theories agree perfectly with those observations that have been made so far. But the two seem to be incompatible with each other, putting out of reach one grand, unified theory. Many physicists would like to overcome this obstacle.

Laymen are probably more captivated by Dr Wheeler's nomenclature than by the details of the physics. But black holes are not really black. In the paper that catapulted him to fame in 1974, Stephen Hawking predicted that some black holes should emit radiation (although in a manner that is still not fully understood). And now, it seems that another famous coinage by Dr Wheeler—that “black holes have no hair”—is also false.

What Dr Wheeler meant by the hairlessness of black holes was that they could be characterised by just three numbers: mass, angular momentum (roughly speaking, how fast a hole spins) and electric charge. To describe a star, one would have, by contrast, to say what each of the zillions of atoms inside it was doing. Once Dr Hawking discovered that a black hole radiates, however, the lack of hair led to a paradox. Drop something—an encyclopedia, say—into a black hole, and it would be destroyed and eventually re-emitted as Hawking radiation in a random way. The information in the encyclopedia would be lost. But quantum mechanics dictates, perhaps surprisingly, that information cannot be destroyed. If the encyclopedia were to fall into a star it would be possible (though admittedly very hard) to reconstruct it by reversing the paths of all the atoms of which it had been composed.

Before Dr Hawking's paper, that point was finessed because no one could prove that the information was not somehow preserved within the black hole. But the Hawking radiation, which is predicted by an *ad hoc* combination of relativity and quantum mechanics, trumps that finesse and leaves an apparent paradox.

In a paper just published in *Nuclear Physics B*, Samir Mathur and his colleagues at Ohio State University seem to have solved the paradox using string theory, which is the best available attempt to reconcile relativity and quantum mechanics. This theory, which postulates that everything in the universe is a consequence of tiny strings oscillating in ten dimensions, was thought to have observable consequences only at very small scales—as much smaller than atoms as atoms are smaller than the solar system. Dr Mathur showed, however, that at high densities of matter, such as those within a black hole, the effects attributable to strings can grow to large sizes.

According to Dr Mathur, the interior of a black hole can be thought of as a ball of strings. This ball modulates the Hawking radiation in a way that reflects the arrangement of the strings inside the hole. So, in effect, it acts as a repository of the information carried by things that have fallen into the hole. Thus, as quantum mechanics requires, no information is destroyed.

Besides resolving the information paradox, this theory has the added benefit—at least in the special cases that Dr Mathur has been able to work out exactly—of getting rid of the “singularity” that had been thought to lie at the centre of every black hole. A singularity is a mathematical anomaly where physical theories such as general relativity break down because quantities that should be finite diverge to infinity. This means that physicists are unable, even in principle, to explain what is actually happening there. It would therefore be quite a boon if Dr Mathur is correct, and singularities do not actually exist.

His result also has a bearing on wider cosmological issues. The early universe would have had a density similar to a black hole, and so the “string-ball” theory would have applied there, too. Though Dr Mathur is cautious on the matter, his theory might supply an alternative explanation about why—when viewed on the grandest scales—the universe appears remarkably uniform.

At the moment, this uniformity is put down to a phenomenon known as cosmic inflation, in which the universe is supposed to have expanded rapidly when it was very young. That expansion would have “locked in” the universe's initial uniform state by stopping local concentrations of matter from forming. Tying the early universe together with strings might provide an alternative explanation for cosmic uniformity.

String theory is often criticised because it is abstract and thus hard to compare with reality. But although no one can yet see a black hole close up, and thus test Dr Mathur's ideas for real, the fact that string theory seems able, in this case, to resolve long-standing inconsistencies between general relativity and quantum mechanics is a big point in its favour.

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Solid-state optics

Seeing c

Mar 4th 2004
From The Economist print edition

How to freeze light in a computer chip

EVERY student of physics learns that light travels at an enormous speed. Information technologists like that fact, because it means that signals can be sent along optical fibres with little delay. But the speed of light makes it hard to handle these messages when they arrive at their destination and have to be processed by a computer. Instead, the signal is converted into electricity for processing, and then converted back into light if it has to be forwarded to another machine. This, obviously, is an inefficient way of doing things.

The trick to making a successful all-optical computer, then, would be to create components that were capable of switching and processing light without converting it into electricity. If it were possible to stop light in its tracks, that would surely help in the creation of such components. And this is just what Mehmet Yanik and Shanhui Fan, of Stanford University, propose doing. At the moment their idea is just an idea—their prototype is a mathematical, rather than a physical model. But their paper in *Physical Review Letters* describes a system that might be possible to build and test reasonably easily.

The speed of light is highest in a vacuum. This value (300,000km a second) is the physical constant known as “c”, and is the maximum speed that the fabric of reality allows. When light passes through a material such as air or glass, it slows down—but not by much. However, a tailor-made material can slow light down to walking pace, or even halt it.

This was first accomplished in 2001 by Lene Hau of Harvard University. The material she used was a cloud of ultra-cold sodium atoms: scientifically fascinating, but of little practical use. Mr Yanik and Dr Fan, by contrast, propose a system that uses pairs of tiny pillars arranged in a lattice. The pillars would be made from an as-yet-unspecified dielectric material.

A dielectric material is one that does not conduct electricity well, but nevertheless allows electrostatic fields to build up inside it. (Silicon, for example, is a dielectric, and would be an obvious candidate for the pillars.) Since light is a form of electromagnetic radiation it will, if the circumstances are propitious, induce an electric field in a dielectric material, and thus interact with that material.

The task Mr Yanik and Dr Fan set themselves was to design appropriately propitious circumstances. This requires that the dielectric constants of the pillars (the measure of the amount of charge that they can hold) can be varied. That could be done either by applying a voltage to them, or by shining a second light beam on them.

The process Mr Yanik and Dr Fan describe works by tuning the dielectric constants of the pillars that lie to the side of the light's path so that they resonate at the same frequency as that of the light in the signal. At the same time, the pillars closer to the light's path have to be “detuned” away from that frequency. The maths is complicated, but this turns out to hold the light stationary. Reverse the process, and the light shoots away again. Such a system, if successfully put into practice, should allow light to be stored in a chip.

To test their idea, Mr Yanik and Dr Fan plan first to build a device to stop microwaves. These, because they have a longer wavelength than visible light, are easier to manipulate. But there is every reason to believe that a system which works at the frequencies used in optical communication could eventually be built. Optical computing will then start to be more than just smoke and mirrors.

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Mars

Wet, wet, wet?

Mar 4th 2004
From The Economist print edition

Yet more evidence that Mars once had water on its surface

Get article background

NASA

The ghosts of crystals past

YOU knew the announcement was going to be important because NASA, America's space agency, made it at its headquarters in Washington, DC, rather than letting the Jet Propulsion Laboratory in California, which manages the agency's Mars-rover project, take the credit. And it did not disappoint. According to the handlers of *Opportunity*, one of NASA's two rovers, their craft has found detailed evidence of minerals and rocks that were formed underwater.

The mineral that people are getting particularly excited about is called jarosite. This is a form of hydrated iron sulphate that *Opportunity*'s scientists think they have detected using the craft's gamma-ray spectrometer. This device works by launching gamma rays (in effect, high-energy light) at a sample, and seeing what bounces back. The pattern of returning gamma rays is dictated by the chemical composition of the target.

Another of *Opportunity*'s spectrometers, which does a similar trick using X-rays (somewhat less energetic than gamma rays) and alpha particles (the nuclei of helium atoms), seems to confirm the presence of sulphates, and also suggests that chlorides and bromides may be present. Sulphates, chlorides and bromides are all minerals typically formed in the presence of water—either by the evaporation of brine, or by chemical alteration of pre-existing minerals.

The rocks themselves look as though they formed that way, too. They contain evidence of crossbedding—that is, of stratification at an angle to the main plane of sedimentation. Crossbedding is caused by fluid flows disturbing the sediment when a rock is forming and, although the fluid in question could have been the Martian atmosphere, the detail of the crossbedding suggests it was water. There are also indentations known as vugs in the rocks. These are normally caused by water-soluble crystals dissolving out of a rock after it has formed. No sign of any Martians yet, though.

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About sponsorship

American letters

Close encounters

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From The Economist print edition

Corbis

When artists meet, they do so much more than shake hands

RACHEL COHEN has created a masterpiece of variety and balance in her first book. “A Chance Meeting” takes 30 American writers and artists from Henry James to Robert Lowell, and braids them together in 36 encounters. Each person comes round two or three times, and every meeting, friendship and collaboration has a resonance that can be heard down the ages until what you have before you is an immense chain of artistic consequences.

A meeting may be just that, an astounding one-off, as when Hart Crane, a poet, saw Charlie Chaplin at the apartment of a mutual acquaintance for a few nocturnal hours in 1923, and never again; or it may be a decades-long exchange of correspondence and affection, like that between Marianne Moore and Elizabeth Bishop. A model for this sort of productive contact may be the taking of a photograph (five of the artists here are photographers, and the book is graced by their portraits); a photograph looks forward, looks back, is momentous and indelible.

Boxing matches are among Ms Cohen's settings, as is the notorious premiere of Stravinsky's “Sacre du Printemps” in 1913, various civil war encampments and the anti-Vietnam war marches. She has men and women; blacks and whites; establishment figures and radicals; Bostonians like James and Lowell; New Yorkers like Crane and Walt Whitman; mid-westerners like Mark Twain and Willa Cather; Californians like John Cage (pictured above left with Merce Cunningham) and exiles like Gertrude Stein and James Baldwin. She even fits in a couple of European jokers in Chaplin and Marcel Duchamp.

A Chance Meeting: Intertwined Lives of American Writers and Artists, 1854-1967
By Rachel Cohen

Random House; 363 pages; $25.95.
Jonathan Cape; £16.99

Buy it at
Amazon.com
Amazon.co.uk

Her book has a wonderful tolerance, reach and curiosity. Ms Cohen's subjects are broadly not figures of the first magnitude. Though there are exceptions, such as Whitman and James, there is no Dickinson, say, or Melville, Hawthorne, Eliot, Pound, Stevens, Hemingway, Fitzgerald or Faulkner. Celebrity and over-familiarity do not obtrude upon the occasions. Each chosen encounter lights and dramatises itself. The fascinating thing is to watch Henry James becoming part of a Guarish continuum that includes Cage

or Duchamp.

Most of the meetings produce and exhaust their own significance. Mark Twain helps (ex-president) Ulysses S. Grant with his memoirs, and publishes them, to the profit of both men, who were periodically hard up. The desperate alcoholic, and homosexual, Crane harasses Katherine Anne Porter repeatedly in Mexico; not long after, he drowns himself in the Gulf. She mentions him in her censorious letters, and lives to be 90. Gertrude Stein meets Carl Van Vechten—everyone's delightful friend, on this showing—and loses her fear of flying.

But beyond that, beyond the anecdotage, and the characters and the circumstances, there begin to accrue some of the essential traits of American writing and American art. Its locality and territoriality, from the time that Henry James felt obliged to leave America, because of its “thinness” as a subject for fiction; to when W.D. Howells talked Twain into writing something about his Mississippi memories, and Sarah Orne Jewett is made to write about Maine; and Cather to write about the mid-west. A persistent strain, also, of rebelliousness, of provocativeness, of “orneriness”, in Crane, in Stein, in Baldwin, in Cage, who in 1967 dedicated a book “to us and all those who hate us, that the USA may become just another part of the world, no more, no less.”

Then there is the drive always to make something more; it could never have been a true American who said, “Poetry makes nothing happen.” (It was W.H. Auden, who only pretended for a while to be American.) It is the amazing Marianne Moore—so staid, so frisky—saying: “I had a letter from Elizabeth [Bishop] a day or two ago, which I am thinking of having tattooed on me.” It is Richard Avedon, wearing a negative of a photo of his sister on his bare shoulder for three days, till it printed on his skin. It is Beauford Delaney, who latterly painted entirely in yellow, nothing necessarily to do with “the fury of the colour problem” addressed by his friend James Baldwin—or is it? It is W.D. Howells, then Henry James, and then pretty well everyone, saying: “Live all you can.”

A Chance Meeting: Intertwined Lives of American Writers and Artists, 1854-1967.
By Rachel Cohen.
Random House; 363 pages; $25.95.
Jonathan Cape; £16.99

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Friedrich von Hayek

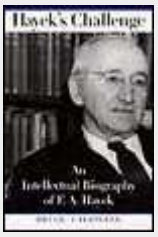
The comeback man

Mar 4th 2004
From The Economist print edition

FOR much of Friedrich von Hayek's career, mainstream economists tended to dismiss him as a free-market extremist who had lost the argument against Keynesianism in the 1930s and 1940s. Even anti-Keynesians patronised him as a venerable polymath with correctly anti-interventionist views who nevertheless belonged down the hall in the political-theory department. When in 1950 Hayek joined the University of Chicago, a stronghold of free-market theory, he taught in the newly created Committee on Social Thought, not as he had hoped in the economics faculty, which politely declined him a post.

Vindication, however, came to this dry, dogged Austrian in his 70s, by when academic economists and policymakers were belatedly taking note. In 1974 Hayek won the Nobel prize for economics. The theoretical idea he was proudest of—that only markets, not governments, could gather and disperse price knowledge effectively—helped inspire a wave of deregulation and privatisation. His chief political idea—that free markets and political liberty were indissociable—lent strength to the revival of classical liberalism. By his death in1992, Hayek had joined Milton Friedman and Robert Nozick as one of the three theoretical godfathers of the Thatcher-Reagan revolution.

Hayek's Challenge: An Intellectual Biography of F.A. Hayek
By Bruce Caldwell



University of Chicago Press; 489 pages; $55 and £38.50

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Amazon.co.uk

Such is the heroic story, and like all heroic stories it contains a measure of truth. Yet the exact nature of Hayek's achievement remains a puzzle. If asked for a good summary of Mr Friedman's lasting contribution, you can point to “Capitalism and Freedom” (1962), a box of argumentative tools, sharpened by theory, for reversing three decades of governmental thinking, be it on social security, minimum wages, mandatory seat belts or flood relief. Nozick's big book was “Anarchy, State and Utopia” (1974), a philosophical critique of the redistributive welfare policies and a defence of the minimal state. By contrast Hayek's diverse and ruminative output—on business cycles, money, economic ignorance, liberty, social evolution, the human mind, economic methodology, the character of social science, complexity theory—threatens to engulf readers before they start. Of all modern right-wing economic thinkers, Hayek is most like Karl Marx in trying to link everything to everything else. And that may be one reason why it is exaggerating only slightly to say that Hayek nowadays is more revered than read.

Obviously guides are needed, and Bruce Caldwell's “Hayek's Challenge” is a welcome introduction. It has several merits. As an editor of Hayek's collected works, Mr Caldwell knows his texts. Unlike many writers on Hayek, he does not treat him as a guru. He admits his obscurities and longueurs. He opens with the influences on Hayek: Carl Menger, the founder of the Austrian school of economics, and Ludwig von Mises, Hayek's mentor, who questioned the value of abstract model-making and urged economists to focus instead on how market decision-takers—which means all of us—really think and act. Mr Caldwell takes us through Hayek's debate with Keynes about money and the business cycle, summarises his key article, “Economics and Knowledge” (1937), as well as his two best known books, “The Road to Serfdom” (1944) and “The Constitution of Liberty” (1960), before delving into his more philosophical endeavours. “Hayek's Challenge” is not a biography. We learn little of Hayek the man or his private life, though the spite of academic combat lightens the going, especially in the footnotes.

Punning on his own title, Mr Caldwell ruefully admits that charting the Hayek archipelago is a challenge. One reader of the manuscript, he tells us, wanted more on Hayek's economics. The balance does seem odd at times: too much method, too little substance; not enough of the political thought, too much on Hayek's speculations about the mind, a topic his cousin, Ludwig Wittgenstein, was rather better at. Others—for example, John Gray in “Hayek on Liberty” (1984) and Roland Kley in “Hayek's Social and Political Thought” (1994)—make of Hayek a more systematic thinker by imposing on him a clearer grid.

Mr Caldwell's approach may be truer to the inquisitive and open-ended character of Hayek's thought. But it makes things hard to follow. Hayek believed that markets and societies generally exemplified spontaneous order: as a rule even the best-meant interventions make things worse. True or not in economics, that is, alas, not true for books. “Hayek's Challenge”, for all its virtues, could have done with the hidden hand of an editor.

Hayek's Challenge: An Intellectual Biography of F.A. Hayek.
By Bruce Caldwell.
University of Chicago Press; 489 pages; $55 and £38.50

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About sponsorship

Questioning Islam

Feisty and fearless

Mar 4th 2004
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ONE day in 1982, in a middle-class Vancouver suburb, a 14-year-old girl wearing a white polyester chador stalked out of Saturday class in a local Muslim school, after quarrelling with her anti-Semitic teacher. The girl, from a family of Muslim immigrants from East Africa, was Irshad Manji. And the incident ("my *madrassa* meltdown") marked the start of her problem with Islam—and, one is tempted to add, Islam's with her.

Ms Manji is today a well-known television presenter and outspoken Muslim refusenik. She has been applauded by many non-Muslims as a fearless critic of all that's wrong with the world of Islam, and denounced by many Muslims as a virtual traitor. Unlike the Swiss-based Muslim intellectual, Tariq Ramadan, whose critics are mainly westerners, Ms Manji's are of her own faith. Since she attacks mainstream Islam as anti-women, anti-Jewish and harbouring totalitarian impulses, and since she loves the West, admires Israel and is openly gay as well as feminist, her Muslim critics have no shortage of ammunition.

The Trouble with Islam: A Muslim's Call for Reform in Her Faith
By Irshad Manji

St Martin's Press; 229 pages; $22.95. Mainstream; £12.99

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She conceived her book as a conversation. In fact, reading it is like listening to a monologue from a bright, argumentative, rather insecure adolescent. Her hectoring tone ("Yes, I'm blunt. You're just going to have to get used to it." "This is a big lie. Do you hear me?" "Is that a heart attack you're having?") is fun for a while but becomes tiring. Her jokes and linguistic quirks often fizzle. More seriously, for someone presenting the case for the prosecution, her knowledge of Islam and the Middle East is at times alarmingly thin. Yet, in the end, it is impossible to dislike someone who in her own idiosyncratic way asks, and tries to answer, one of the central questions of our time: "How do we sow reform in the Muslim world—without becoming cultural colonisers?"

Part of her answer is by empowering Muslim women—for which she wants to mobilise Christians, Muslims, Jews, the World Bank and Oprah Winfrey. It is an example of how, struggling to get out of this hodgepodge of a book, there are some sensible ideas. It is also an implicit acknowledgment that, despite her title, her problem is not, after all, with Islam, but with what is done in Islam's name.

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Ocean swimming

Artist of the floating world

Mar 4th 2004
From The Economist print edition

IN ORDER to become the first person ever to swim a mile in the Antarctic, Lynne Cox braved life-threatening, freezing water temperatures for nearly half an hour. “It was a great dream, swimming to Antarctica,” she concluded after a dip that would have left recreational swimmers dead in the water in no time at all. But Ms Cox is not the type to test the cold with her toes. Every recorded sea adventure by this celebrated American ocean swimmer is a triumph of a positive outlook, hefty preparation and raw courage. The Antarctic swim—one of many such exploits—was just the tip of the iceberg.

Swimming to Antarctica: Tales of a Long-Distance Swimmer
By Lynne Cox

Knopf; 321 pages; $24.95

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Amazon.co.uk

From the age of 14, she took on every challenge: the Catalina Channel (fog, sea-traffic); the English Channel (strong currents, cold water); the Cook Strait (rough seas); the Strait of Magellan (whirlpools); the Cape of Good Hope (sharks); Alaska's Glacier Bay (icebergs); and the Bering Strait—the book's emotional core—during the cold war.

Ms Cox sent letters to Leonid Brezhnev, Konstantin Chernenko, Yuri Andropov and Mikhail Gorbachev, as well as a whole raft of American politicians and media movers, to make the 2.7-mile (4.3-kilometre) swim, intended “to create a thaw in the cold war”, a reality. When her years of persistence were finally rewarded she asked the Soviets to provide her with a *babushka*—in her language, a colourful shawl—and the Soviet authorities sweetly supplied her with a grandmother, albeit one with a medical degree.

It is almost too be good to be true: Mr Gorbachev paid homage to her success after signing the INF missile treaty agreement with Ronald Reagan. Before an appearance on “Good Morning, America”, Colin Powell told her he thought the swim had helped diminish tensions between the superpowers. She met the pope.

But if Ms Cox embodies America's positivism—and just a little of its Forrest Gump innocence—it's the sharing of the swimming experience that creates the book's magic, and the understanding of physiological and mental endurance which supplies its substance. At the age of eight, Ms Cox noticed that if you keep moving in cold water, you warm up. And while lap swimming in a storm she realised that “nature was strong, beautiful, dramatic and wonderful and being out in the water...made me feel somehow a part of it.”

Her first record-breaking swim of the English Channel was like climbing Mount Everest. “It was the absolute zenith of the sport.” Yet she notes with wonder that the “White Cliffs were higher, more magnificent, and brighter white than I'd ever imagined”. Indeed, even in the most fetid conditions, swimming the Nile surrounded by raw sewage, dead rats and a dog—“your hand punched through its rib cage”—she finds emotional sustenance.

As the book progresses, you hear the inner voice increasingly resisting any negative thoughts. “I'm so ready for this,” she tells herself before jumping into the icy Antarctic waters. Incredibly, she was.

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Literary biography

Somerset's sunrise

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IN THE four decades since William Somerset Maugham died in 1965 at the age of 91 he has passed a writer's cruellest test: people still read him. And he continues to be written about. Jeffrey Meyers quotes a remark by Maugham's friend Christopher Isherwood that Maugham reminded him of an old Gladstone bag covered with labels: “God knows what is inside.” Mr Meyers's biography is a careful search of that bag. Delving into its depths he has found much new material about Maugham's medical training and his spy work, and he shows how these experiences conditioned both his personality and his writing.

Somerset Maugham: A Life
By Jeffrey Meyers

Knopf; 411 pages; $30

Buy it at
Amazon.com
Amazon.co.uk

Although Maugham qualified as a doctor he never practised; his hospital experiences convinced him that there was no God. Painful death and the suffering of children contradicted his idea of a loving deity. Maugham's experience in the first world war, when he worked close to the western front as an ambulance driver, confirmed his atheism. “I have never seen such wounds,” he wrote in his diary.

He surprised his friends by leaving Europe in the middle of the war and sailing for the Pacific. They found it difficult to believe that he had abandoned the war for the presumed delights of the South Seas. Mr Meyers offers an explanation. Maugham had been recruited by Britain's secret service earlier in the war, serving for a time in Switzerland, and was now sent to spy on Germany's Pacific possessions. A spy's nature, Maugham wrote, was “pitiless and rather dreadful”. Mr Meyers writes of the development of his “chilling personal qualities, his remoteness, wariness and reticence”. Maugham's sexual preferences—he “really loved men but tried to love women”—added to his secretive and manipulative nature.

Maugham's unsentimental view of the world is particularly evident in his writing about the Pacific islands. Unlike the romanticised accounts of some of his predecessors, such as Robert Louis Stevenson, Maugham saw the Pacific as a place where sullen, decadent white men became trapped in a steamy landscape. In “The Moon and Sixpence” (1919), among his best-known novels, the main character is based on Paul Gauguin, whose nature was as pitiless as Maugham's. Gauguin abandoned his wife and five children, lived in Tahiti with a succession of girls no older than 14—and died of syphilis.

The books for which Maugham is mostly remembered are set in Asia and the Pacific. As Graham Greene remarked, Maugham “still primarily means adultery in China, murder in Malaya, suicide in the South Seas”. But it is not Maugham's choice of exotic locations that keep his books in print. Nor is it that he wrote so much: 78 books and numerous plays. Much of his writing is best forgotten. But in his prime, he evolved a clear and effective prose style that achieved a quality possessed only by master story-tellers, making the reader greedy for more. “The Razor's Edge” (1944) sold more than half a million copies in its first month of publication, while “Of Human Bondage” (1915) remained a bestseller for years. From an era that produced George Bernard Shaw, H.G. Wells and John Galsworthy, Maugham is the great survivor.

Somerset Maugham: A Life.
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Knopf; 411 pages; $30

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About sponsorship

Henri Gaudier-Brzeska

Promise broken

Mar 4th 2004
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THIS is the first full-length biography of a young sculptor who passed through the London art world like a comet in the night sky. Arriving in London in 1911, he was dead by 1915, killed on the Western Front at the age of 23. As his friend Ezra Pound put it, he died “at the beginning of his work”.

Henri Gaudier was the son of French artisans from a small village near Orléans. His parents intended him for a life of commerce, but he decided his calling was art. In England, he struck up a curious, mother-and-child relationship with Zofia Zuzanna Brzeska, a Polish woman he met in a library. She was twice his age. She called him Pik, Pikus, Pipik; he called her *maman*, Madka, little Mamus. He tacked her surname on to the end of his; thus was born his unpronounceable name.

His career proceeded in fits and starts. He was desperately poor, living in squalid rooms that teemed with mice. He often borrowed, stole or scrounged the materials—odd scraps of marble or alabaster—that he used for his sculptures. The impression he made upon others was at times alarming. He seldom bathed. He had a tongue as sharp as one of his own hand-made chisels. Enid Bagnold described him as having “a hungry face and a mind made of metal. He talked like a chisel and argued like a hammer”.

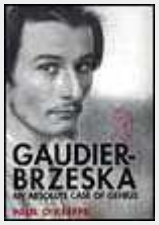
What was the thrust of those arguments? Gaudier thought that the smooth, humanistic naturalism of the Greeks was at an end. The new art must be archaic, jagged, abstracted. “I shall derive my emotions solely from the arrangement of surfaces,” he wrote in a manifesto published a month after his death. As he sketched Michelangelo's “Slaves” in the Victoria and Albert Museum, he scribbled down urgent, serious musings beside his drawings. Line, he wrote, is “an infraction of liberty”; mass, on the other hand, represented freedom.

Unfortunately, there was scarcely world enough or time to carry through his objectives. There are perhaps a dozen works of great brilliance—the squat “Redstone Dancer” with its marvellous spiralling motion (now in the Tate Gallery's collection), for example. Much of the rest is great promise unfulfilled.

This is not an outstanding biography for two reasons. Too little is known about Gaudier's life to justify a book of this length. The consequence of that is too much padding, much creeping along from moment to moment, much unnecessary and irrelevant detail. Does it add to our understanding of Gaudier-Brzeska to be told in such wearisome detail the history of the Bristol school at which he spent some time? The second failing is that the author has made little serious attempt to stand back from his subject and see him in relation to the development of sculpture in the 20th century. Yet, while it lacks a broadly critical overview, this book will help ensure that the comet will not be forgotten.

Gaudier-Brzeska: An Absolute Case of Genius.
Paul O'Keeffe
Penguin/Allen Lane; 371 pages; £29

Gaudier-Brzeska: An Absolute Case of Genius
By Paul O'Keeffe



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New fiction

Haiti horror

Mar 4th 2004
From The Economist print edition

NO AUTHOR should be punished for a publisher's hype, but brouhaha does raise expectations—in the case of a vaunted Haitian-American's "The Dew Breaker", destructively high. And the sheer worthiness of a topic, even torture and political imprisonment under the Duvalier regimes in Haiti, will take a novel only so far.

After introducing her former torturer and reformed family man, Edwidge Danticat circles her subject by sampling the lives of a sequence of expatriate Haitians who have suffered at "the dew breaker's" hands. Unfortunately, this structure dispels emotional intensity, and turns the book into a series of vignettes. Seen from so many angles, the erstwhile villain never quite swims into focus. History is full of monsters who are attentive fathers and kind to their pets, but Ms Danticat sheds little light on how such people accommodate their contradictions, or on where the urge to cruelty goes when sadists repent.

The best thing about the novel is its moral ambiguity. Whether the author wishes to grant her torturer absolution is left indefinite, and she does not seem to favour the too-easy blanket forgiveness that leaves many victims of abuse in the bleak position of simply having to get over it.

A writing style that is merely plain should not be mistaken for one that is elegant. Ms Danticat's prose is clear and readable. But it errs on the side of the mundane, and rarely succeeds in moving the reader to the degree that the material deserves. Occasional details sound too made-up; when the torturer comes down with adult measles, which might have killed him, his daughter claims that at the age of eight she "looked up the word 'kill' in every dictionary and encyclopedia at school, trying to understand what it really meant"—an arty idea that strains credulity in real life.

Ms Danticat has done her historical homework. Yet, while it is obvious that no fiction writer need personally undergo torture in order to write from experience—and thus write better—the horror that lies at the centre of this novel is never anything more than gestured towards. A smaller book than it seems, "The Dew Breaker" is ultimately an innocuous read. In the light of the Duvaliers' history—and of recent events on Haiti—it shouldn't be.

The Dew Breaker.
By Edwidge Danticat.
Knopf; 242 pages; $22. To be published in Britain by Abacus in May; £9.99

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About sponsorship

José López Portillo

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From The Economist print edition

Popperfoto.com

José López Portillo y Pacheco, a prodigal president of Mexico, died on February 17th, aged 83

IN THE early 1970s, extraordinary new discoveries of oil began to be made in south-eastern Mexico. It was found bubbling through a marsh near Villahermosa and leaking into the sea near Ciudad del Carmen. Soon donkeys were nodding all over the states of Tabasco, Veracruz, Campeche and Chiapas. Experts reckoned that 300m barrels of oil lay underground.

And what then? To José López Portillo, the president, the sky was the limit. Mexico, a struggling closed economy mired in recession, would industrialise as never before. There would be 20 new cities, linked by a new national gas grid, and four industrial super-ports. Poverty would vanish. Mexico would swap oil for American technology, and would build nuclear plants. In terms of world influence, it would shortly become as powerful as France.

Mr López Portillo was given to dreaming. To outside observers, as he lectured in law and worked his way up through the ranks of the ruling Institutional Revolutionary Party (the PRI), he was merely an intellectual bureaucrat, a man who had written musings on “chromatic democracy in Mexico” and who buried himself in the most obscure theories of public administration. The occasional macho swagger, as he strolled down the streets of Mexico City with his pal “Blacky” Durazo, was probably for effect. When he became president in 1976, nudged into the flag-draped chair by his boyhood friend Luís Echeverría, pundits took him for a shadow of his predecessor. They did not know that he was in fact Quetzalcóatl, the Plumed Serpent, the Prometheus of Mexico.

He wrote a novel about this. He, the great Quetzalcóatl, known as Don Q, visited the Aztecs from the realms of the gods. He taught them all their skills, especially the use of fire. Ungrateful, they drove him away, but he returned in vengeful glory with the Spanish conquistadors. The dream was easy to indulge. Like Quetzalcóatl, Mr López Portillo was white-skinned, a pure creole “raised in the nobility”, as he liked to say. The slick suits and sideburns concealed a lordly past. He also had conquistador blood, and could perform wild tricks on unmanageable horses. And was he not the instructor and saviour of his country?

From god to dog

The plan for salvation began well. As president, he announced a careful six-year programme: two years for the economy to recover, two years for stabilisation, two years to leap forward into greatness. Most of

this recovery was to be financed by borrowing from foreign banks, but no matter. As Echeverría's finance minister, he had found banks to borrow from where others had despaired. Besides, the oil, which was his security, was inexhaustible. Moreover, the price of oil was bound to go on rising, and the cost of borrowing was bound to fall. So he dreamed.

Mexico prospered, growing by an average of 6.5% a year. Between 1977 and 1981, oil exports increased 14-fold; by 1981, Mexico was the world's fourth-biggest producer. But gradually the flood of black gold undermined all good intentions.

Corruption, autocracy, showy populism and blatant nepotism—the governing traditions of the PRI since 1929—became rampant. Huge mansions went up for Mr López Portillo, his wife and his then-principal mistress, Rosa Luz Alegría, whose garden filled a whole ravine. Mrs López Portillo used government aircraft for her shopping trips to New York and Paris. The president's sisters and cousins enjoyed government jobs. The fragrant Miss Alegría was offered the Ministry of Education, though she ended up with Tourism. Mr López Portillo's son, José Ramón, was made deputy minister of budget and planning: “the pride of my nepotism”, his fond father said. Blacky Durazo became a brutal chief of police in Mexico City, eventually jailed for plundering millions of pesos from the public purse.

Until 1981, the price of Mexican crude kept rising, reaching a peak of $38.50. Then world oil prices plunged. The chief of PEMEX, Mexico's state oil company, cut the Mexican price to keep pace; Mr López Portillo, furious at this insult to “his” oil, instantly fired him, and racked prices up again. Meanwhile the peso, too, was diving downwards, propelled by a foreign debt of $80 billion and rising. Capital was flooding out of Mexico: between July and August 1981 alone, $9 billion leaked away. Though the president swore to defend the peso “like a dog”, by February 1982 he had to devalue. His palace became known as “Dog's Hill”, and people barked at him in the street.

He always said that it was not his fault. The blame lay with the “Shylock” foreign creditors who, having gorged on Mexico's “petroleum blood”, soon wanted the flesh as well. He had rejected their conditions, and in 1982 had suspended payments on the foreign debt. Blame lay, too, with the bankers for letting money pour from the country. That September therefore, at a stroke, he nationalised the banks. It took balls, he bragged later. But no one seemed to appreciate these last manly flourishes. The PRI, in particular, never recovered from the economic catastrophe he had vigorously helped bring about; though that was to the good, perhaps.

He wept as he made his last speech to Congress, asking the poor to forgive him for having failed to relieve them. He then left for Italy and Spain with another mistress, Sasha Montenegro, whom he had entertained for 20 years behind the back of his wife. After the glory came the scorn and the exile, just like Quetzalcóatl.

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Overview

Mar 4th 2004
From The Economist print edition

American manufacturing activity slowed slightly in February, compared with its torrid pace in January, according to the Institute for Supply Management's purchasing managers' index. But the ISM's separate manufacturing-employment index rose strongly, creating hopes for rising payrolls. The ISM's service-industry index showed a similar slowdown in activity, but without the gains in employment.

The **dollar** rebounded sharply. It hit a three-month high against the **euro**, and a four-month high against the **yen**.

Unemployment in the **euro area** held steady in January at 8.8%. In **France**, unemployment fell in January to 9.6% from 9.7% in December, owing to data corrections rather than to fewer unemployed people. Producer prices in the euro area rose by 0.3% in the year to January. **German** retail sales fell by 2.9% in the year to January.

Canada's central bank cut interest rates by a quarter of a percentage point, to 2.25%, in the bank's continuing bid to weaken the Canadian dollar. A strong currency is reckoned to be hurting Canada's economy, which grew by 1.6% in the year to the fourth quarter.

Australia's economy had its best quarter since 1999. GDP grew by 1.4% in the fourth quarter, an annualised rate of 5.5%.

Industrial production in **Japan** rose by 13.8% in the year to January.

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Output, demand and jobs

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% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2004	2005	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 4.0	Q4	+ 5.5	+ 3.7	+ 3.3	– 0.1	Q3	+ 7.3	Q4	5.7	Jan	6.1
Austria	+ 0.8	Q3	+ 1.4	+ 1.8	+ 2.1	+ 2.2	Sep	+ 0.1	Dec	4.4	Feb	4.2
Belgium	+ 1.2	Q4	+ 2.4	+ 1.8	+ 2.1	+ 8.3	Dec	– 0.7	Dec	12.8	Feb†	11.8
Britain	+ 2.8	Q4	+ 3.8	+ 3.0	+ 2.5	– 0.8	Dec	+ 6.4	Jan	4.9	Dec††	5.1
Canada	+ 1.6	Q4	+ 3.8	+ 3.0	+ 3.2	+ 1.5	Dec	+ 2.1	Nov	7.4	Jan	7.5
Denmark	+ 0.3	Q4	+ 1.2	+ 2.0	+ 2.3	– 0.2	Dec	+ 1.8	Dec	6.5	Jan	5.5
France	+ 0.5	Q4	+ 2.0	+ 1.9	+ 2.2	+ 2.0	Dec	– 2.2	May	9.6	Jan	9.3
Germany	+ 0.2	Q4	+ 0.9	+ 1.6	+ 1.8	+ 3.5	Dec	– 2.9	Jan	10.3	Feb§	10.5
Italy	+ 0.1	Q4	nil	+ 1.6	+ 2.0	– 0.2	Dec	– 2.8	Nov	8.4	Oct	8.9
Japan	+ 3.6	Q4	+ 7.0	+ 2.6	+ 1.8	+13.8	Jan	+ 0.4	Dec	4.9	Dec	5.3
Netherlands	– 0.5	Q4	+ 1.2	+ 1.0	+ 1.9	– 3.0	Dec	– 5.5	Nov‡	5.9	Jan**	4.4
Spain	+ 2.7	Q4	+ 3.0	+ 2.9	+ 2.9	+ 3.6	Dec	+ 2.9	Nov	11.2	Dec	11.5
Sweden	+ 2.0	Q3	+ 1.9	+ 2.5	+ 2.6	– 3.6	Dec	+ 3.7	Jan	5.9	Jan†	5.1
Switzerland	– 0.6	Q3	+ 1.0	+ 1.6	+ 1.9	+ 0.4	Q3	+ 1.3	Dec	4.3	Jan†	3.5
United States	+ 4.3	Q4	+ 4.0	+ 4.7	+ 3.5	+ 2.4	Jan	+ 7.4	Dec	5.6	Jan	5.8
Euro area	+ 0.6	Q4	+ 1.2	+ 1.8	+ 2.2	+ 2.3	Dec	– 1.6	Nov	8.8	Jan	8.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.6	Q3	+ 3.2	na	na	– 1.1	Jan	+ 2.5	Dec	9.5	Jan†	9.5
Greece	+ 5.0	Q3	+ 1.8	na	na	+ 3.9	Oct	+ 5.2	Sep	na		na
Iceland	+ 3.2	Q3	na	na	na	– 0.3	2002	na		3.4	Dec†	3.0
Ireland	– 0.1	Q3	na	na	na	+17.0	Dec	– 0.1	Dec	4.7	Jan	4.3
Luxembourg	+ 1.3	2002	na	na	na	+ 4.4	Nov	+ 2.0	Sep	4.1	Dec	3.4
New Zealand	+ 3.5	Q3	+ 6.3	na	na	+ 4.1	Q3	+ 6.0	Q4	4.6	Q4	4.9
Norway	+ 0.2	Q3	+ 3.3	na	na	– 4.5	Dec	+ 4.4	Jan	4.2	Q4	3.7
Portugal	– 0.9	Q3	– 2.1	na	na	+ 2.0	Dec	+ 1.1	Jan	6.6	Q4†	6.2

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Oct-Dec; claimant count rate 2.9% in Jan. §EU harmonised rate 9.3% in Feb. **Nov-Jan. +

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Prices and wages

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% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.4	Q4	+ 3.0	+ 2.2	+ 2.6	− 1.1	Q4	+ 1.6	+ 5.1	Q3	+ 3.6
Austria	+ 1.1	Jan	+ 1.7	+ 1.1	+ 1.4	+ 2.2	Jan	+ 1.4	+ 2.2	Jan	+ 2.2
Belgium	+ 1.3	Feb	+ 1.7	+ 1.4	+ 1.6	+ 2.1	Jan	+ 0.1	+ 1.8	Q4	+ 2.2
Britain	+ 1.4	Jan	+ 1.4	+ 1.5	+ 1.8	+ 1.6	Jan	+ 1.3	+ 3.4	Dec	+ 3.7
Canada	+ 1.2	Jan	+ 4.5	+ 1.5	+ 2.0	− 3.6	Jan	+ 2.4	+ 5.5	Dec	+ 1.6
Denmark	+ 1.1	Jan	+ 2.6	+ 1.5	+ 2.0	+ 0.3	Jan	+ 1.3	+ 3.7	Q4	+ 3.9
France	+ 2.0	Jan	+ 2.0	+ 1.8	+ 1.6	+ 0.2	Jan	+ 1.7	+ 2.7	Q4	+ 3.5
Germany	+ 0.9	Feb	+ 1.3	+ 1.0	+ 1.1	+ 0.4	Jan	+ 1.2	+ 1.6	Dec	+ 3.1
Italy	+ 2.4	Feb	+ 2.6	+ 2.3	+ 2.1	+ 0.3	Jan	+ 2.5	+ 2.7	Dec	+ 2.2
Japan	− 0.3	Jan	− 0.4	− 0.2	nil	nil	Jan	− 1.0	+ 1.5	Jan	+ 1.1
Netherlands	+ 1.4	Jan	+ 2.4	+ 1.5	+ 1.4	+ 0.6	Dec	+ 4.2	+ 1.8	Jan	+ 3.5
Spain	+ 2.3	Jan	+ 3.7	+ 2.5	+ 2.5	+ 0.7	Jan	+ 2.6	+ 3.1	Q3	+ 3.8
Sweden	+ 0.8	Jan	+ 2.8	+ 1.4	+ 1.9	− 2.1	Jan	− 0.2	+ 2.7	Dec	+ 4.0
Switzerland	+ 0.1	Feb	+ 1.0	+ 0.5	+ 0.9	− 0.2	Jan	− 0.2	+ 1.8	2002	+ 2.5
United States	+ 1.9	Jan	+ 2.6	+ 1.5	+ 1.8	+ 4.0	Dec	+ 1.2	+ 2.0	Jan	+ 3.0
Euro area	+ 1.6	Feb	+ 2.4	+ 1.7	+ 1.6	+ 0.3	Jan	+ 2.3	+ 2.6	Q3	+ 3.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.2	Jan	+ 1.4	na	na	− 0.7	Jan	+ 1.4	+ 3.9	Q3	+ 4.1
Greece	+ 2.9	Jan	+ 3.1	na	na	+ 2.0	Dec	+ 1.5	na		na
Iceland	+ 2.3	Feb	+ 1.5	na	na	+ 1.4	Feb	+ 3.5	+ 3.3	Jan	+ 5.5
Ireland	+ 1.8	Jan	+ 4.8	na	na	− 8.2	Jan	− 5.3	+ 4.7	Q3	+ 6.0
Luxembourg	+ 2.1	Jan	+ 2.3	na	na	+ 0.1	Dec	+ 1.3	+ 0.6	Nov	+ 3.2
New Zealand	+ 1.6	Q4	+ 2.7	na	na	− 0.1	Q4	− 1.4	+ 2.3	Q4	+ 2.1
Norway	− 1.8	Jan	+ 5.0	na	na	− 0.1	Jan	+11.6	+ 4.3	Q3	+ 5.0
Portugal	+ 2.3	Jan	+ 4.0	na	na	− 0.3	Jan	+ 2.6	− 2.6	Dec	+ 0.4

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Economic forecasts

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The Economist poll of forecasters, March averages (previous month's, if changed)

	Real GDP, % change				Consumer prices % increase		Current account % of GDP	
	Low/high range		average					
	2004	2005	2004	2005	2004	2005	2004	2005
Australia	2.4/4.3	2.6/4.5	3.7	3.3	2.2	2.6	-5.1 (-5.3)	-4.5
Austria	1.4/2.0	1.7/2.3	1.8 (1.9)	2.1	1.1 (1.2)	1.4	-0.2	-0.3
Belgium	1.2/2.1	1.6/2.7	1.8 (1.9)	2.1	1.4	1.6	4.1 (4.8)	4.2
Britain	2.4/3.8	1.9/3.3	3.0 (2.8)	2.5	1.5	1.8	-2.4 (-2.1)	-2.3
Canada	2.5/3.9	2.6/4.3	3.0 (3.1)	3.2	1.5 (1.6)	2.0	1.4 (1.3)	1.0
Denmark	1.5/2.5	2.1/2.6	2.0 (2.2)	2.3	1.5 (1.6)	2.0	2.6 (2.5)	2.6
France	1.5/2.7	1.6/2.7	1.9	2.2	1.8 (1.7)	1.6	1.2	1.2
Germany	1.1/2.0	1.0/2.3	1.6 (1.7)	1.8	1.0	1.1	2.5 (2.6)	2.4
Italy	0.9/2.2	1.2/2.4	1.6 (1.7)	2.0	2.3	2.1	-1.0 (-0.9)	-0.8
Japan	1.3/4.0	0.8/3.5	2.6 (2.1)	1.8	-0.2	nil	3.0	2.9
Netherlands	0.5/1.6	1.2/2.9	1.0	1.9	1.5	1.4	3.2	3.4
Spain	2.6/3.5	2.6/3.5	2.9 (3.0)	2.9	2.5 (2.6)	2.5	-2.5	-2.6
Sweden	2.0/3.2	2.1/3.5	2.5 (2.4)	2.6	1.4	1.9	4.8 (4.9)	4.5
Switzerland	0.9/2.2	1.3/2.3	1.6	1.9	0.5	0.9	10.6 (10.8)	10.6
United States	3.7/5.2	3.0/4.5	4.7 (4.6)	3.5	1.5	1.8	-5.1 (-5.2)	-4.9
Euro area	1.4/2.4	1.7/2.6	1.8 (1.9)	2.2	1.7	1.6	0.7 (0.6)	0.6

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS

Every month *The Economist* calculates the average of a group of forecasters' predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. This month we include, for the first time, forecasts for 2005. The panel expects that the recovery will generally moderate next year. It predicts that growth will decelerate in America from 4.7% in 2004 to 3.5% in 2005. In Japan, growth will slacken from 2.6% to 1.8%. Britain will also experience a slowdown, from 3.0% to 2.5%. However, the panel forecasts that growth in the euro area will pick up from 1.8% in 2004 to 2.2% in 2005. In both years, America will be the fastest-growing country. The Netherlands wins the booby prize.

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Money and interest rates

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	Money supply* % change on year ago			Interest rates % p.a. (Mar 3rd 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 9.1	+13.8	Jan	5.55	4.78	5.28	5.61	4.98	6.54
Britain	+ 7.6	+ 8.3	Jan	4.19	3.63	4.39	4.86	4.12	5.64
Canada	+ 7.0	+ 7.7	Jan	2.12	3.01	2.45	4.36	4.91	5.89
Denmark	+ 6.4	+ 6.7	Jan	2.15	2.70	2.45	4.23	4.04	5.27
Japan	+ 4.3	+ 1.6	Jan	0.03	0.02	0.11	1.40	0.76	1.46
Sweden	+ 3.3	+ 2.2	Jan	2.41	3.41	3.05	4.49	4.35	3.18
Switzerland	+25.2	+ 9.0	Jan	0.26	0.56	0.71‡	2.43	2.17	2.45
United States	+ 5.6	+ 4.3	Jan	1.04	1.23	1.73	4.05	3.62	5.62
Euro area†	+11.2	+ 6.4	Jan	2.06	2.48	2.32	4.07	3.83	3.93

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. New Series. Benchmarks: US 30-year 4.91%, Japan No. 258 1.43%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.0%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

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From The Economist print edition

1995=100

	Feb 24th	Mar 2nd*	% change on one month	% change on one year
Dollar index				
All items	96.6	97.5	+ 6.1	+24.3
Food	93.2	93.4	+ 4.8	+17.3
Industrials				
All	101.4	103.2	+ 7.8	+34.1
Nfa†	97.1	97.8	+ 6.4	+22.5
Metals	104.9	107.8	+ 8.9	+44.5
Sterling index				
All items	80.8	83.2	+ 5.5	+ 6.3
Euro index				
All items	100.3	104.3	+ 8.3	+10.2
Yen index				
All items	111.2	114.4	+11.0	+16.2
Gold				
$ per oz	403.45	393.75	– 2.3	+11.4
West Texas Intermediate				
$ per barrel	34.56	36.60	+ 7.1	– 0.8

* Provisional. † Non-food agriculturals.

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Stockmarkets

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Market indices

	Mar 3rd	2003-04 high	2003-04 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,399.0	3,399.0	2,673.3	+ 1.6	- 1.2	+14.2	+51.4
Austria (ATX)	1,817.8	1,817.8	1,120.2	+ 2.1	nil	+58.1	+82.8
Belgium (Bel 20)	2,481.8	2,493.9	1,426.6	+ 0.2	-32.6	+22.6	+41.7
Britain (FTSE 100)	4,525.1	4,540.1	3,287.0	+ 0.4	-34.7	+14.8	+30.1
Canada (Toronto Composite)	8,795.7	8,874.7	6,228.6	+ 1.8	-22.8	+33.0	+55.9
Denmark (KBX)	239.7	240.7	145.0	+ 1.7	-20.6	+44.2	+66.2
France (SBF 250)	2,577.0	2,591.1	1,630.1	+ 1.7	-41.3	+25.5	+45.1
(CAC 40)	3,758.5	3,785.4	2,403.0	+ 1.5	-45.7	+22.7	+41.8
Germany (DAX)	4,071.7	4,151.8	2,203.0	+ 1.9	-49.5	+40.8	+62.8
Italy (BCI)	1,315.5	1,315.5	959.4	+ 1.6	-39.7	+20.5	+39.3
Japan (Nikkei 225)	11,351.9	11,361.5	7,607.9	+ 6.5	-70.8	+32.3	+42.6
(Topix)	1,116.0	1,116.8	770.6	+ 6.7	-61.3	+32.3	+42.6
Netherlands (AEX)	360.1	364.8	218.4	+ 1.4	-48.7	+11.6	+29.0
Spain (Madrid SE)	865.9	872.8	576.8	+ 1.2	-24.5	+36.6	+57.9
Sweden (Affarsvarlden Gen)	211.9	211.9	127.8	+ 3.3	-47.1	+45.9	+67.0
Switzerland (Swiss Market)	5,872.2	5,896.3	3,675.4	+ 1.0	-30.2	+26.8	+34.9
United States (DJIA)	10,593.1	10,737.7	7,524.1	- 0.1	- 9.6	+27.0	+27.0
(S&P 500)	1,151.0	1,157.8	800.7	+ 0.6	-24.6	+30.8	+30.8
(NASDAQ Comp)	2,033.4	2,153.8	1,271.5	+ 0.5	-59.7	+52.3	+52.3
Europe (FTSE Eurotop 300)*	1,021.2	1,024.5	682.7	+ 1.4	-40.1	+19.2	+37.8
Euro area (FTSE Ebloc 100)*	879.5	884.7	565.7	+ 1.7	-43.3	+22.4	+41.6
World (MSCI)†	1,069.4	1,085.8	710.8	+ 0.2	-26.2	+35.0	+35.0
World bond market (Citigroup)‡	595.1	619.5	518.6	- 2.3	- 3.9	+13.3	+13.3

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

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	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2004	2005	Exchange rate trade-weighted† 1990=100 Mar 3rd	year ago	Currency units per $ Mar 3rd	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2004‡
Australia	− 15.9	Jan	− 30.0	Q4	− 5.1	− 4.5	88.4	78.2	1.34	1.62	2.44	1.63	1.22	0.5
Austria	− 1.2	Nov	− 1.2	Dec	− 0.2	− 0.3	103.2§	101.3	0.82	0.91	1.50	–	0.75	-1.2
Belgium	+ 19.8	Dec	+ 9.9	Sep	+ 4.1	+ 4.2	103.5§	100.7	0.82	0.91	1.50	–	0.75	nil
Britain	− 74.7	Dec	− 36.1	Q3	− 2.4	− 2.3	105.9	100.4	0.55	0.62	–	0.67	0.50	-2.9
Canada	+ 42.8	Dec	+ 18.5	Q4	+ 1.4	+ 1.0	86.0	79.8	1.35	1.47	2.46	1.63	1.22	0.7
Denmark	+ 9.9	Dec	+ 6.0	Dec	+ 2.6	+ 2.6	106.4	105.4	6.14	6.77	11.2	7.45	5.58	1.0
France	+ 4.9	Dec	+ 18.2	Dec	+ 1.2	+ 1.2	107.1§	103.8	0.82	0.91	1.50	–	0.75	-3.7
Germany	+145.8	Dec	+ 56.3	Dec	+ 2.5	+ 2.4	104.8§	100.9	0.82	0.91	1.50	–	0.75	-3.7
Italy	+ 2.1	Dec	− 20.6	Dec	− 1.0	− 0.8	76.4§	74.0	0.82	0.91	1.50	–	0.75	-2.9
Japan	+105.5	Dec	+136.0	Dec	+ 3.0	+ 2.9	134.1	132.1	110	117	201	134	–	-6.8
Netherlands	+ 31.7	Dec	+ 14.4	Q4	+ 3.2	+ 3.4	103.1§	99.9	0.82	0.91	1.50	–	0.75	-2.5
Spain	− 52.5	Nov	− 26.7	Nov	− 2.5	− 2.6	77.5§	75.5	0.82	0.91	1.50	–	0.75	0.2
Sweden	+ 19.2	Jan	+ 18.9	Q4	+ 4.8	+ 4.5	80.3	79.3	7.62	8.37	13.9	9.24	6.92	0.5
Switzerland	+ 6.8	Jan	+ 29.4	Q3	+10.6	+10.6	109.8	117.5	1.30	1.33	2.37	1.58	1.18	na
United States	−549.4	Dec	−541.7	Q3	− 5.1	− 4.9	97.6	106.4	–	–	1.82	1.21	0.91	-5.1
Euro area	+ 83.5	Dec	+ 36.5	Dec	+ 0.7	+ 0.6	90.5	87.4	0.82	0.91	1.50	–	0.75	-2.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.5	Dec	+ 9.2	Dec	na	na	82.3§	79.6	0.82	0.91	1.50	–	0.74	1.9
Greece	− 25.7	Dec	− 11.3	Dec	na	na	59.8§	58.3	0.82	0.91	1.50	–	0.74	-1.6
Iceland	− 0.3	Jan	− 0.4	Q3	na	na	93.4**	92.1	71.0	76.8	130	86.2	64.5	0.2
Ireland	+ 39.2	Dec	− 2.1	Q3	na	na	95.6§	90.3	0.82	0.91	1.50	–	0.74	-1.3
Luxembourg	− 3.4	Dec	+ 2.0	Q3	na	na	103.5§	100.7	0.82	0.91	1.50	–	0.74	-1.8
New Zealand	− 2.2	Jan	− 3.3	Q3	na	na	106.1	97.7	1.50	1.77	2.73	1.82	1.36	2.2
Norway	+ 28.1	Jan	+ 28.7	Nov	na	na	93.2	102.8	7.11	7.06	13.0	8.63	6.46	9.7
Portugal	− 13.5	Nov	− 8.2	Nov	na	na	93.4**	91.1	0.82	0.91	1.50	–	0.74	-3.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, December average. ‡OECD forecast. **IMF, October average.

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About sponsorship

Stockmarket turnover

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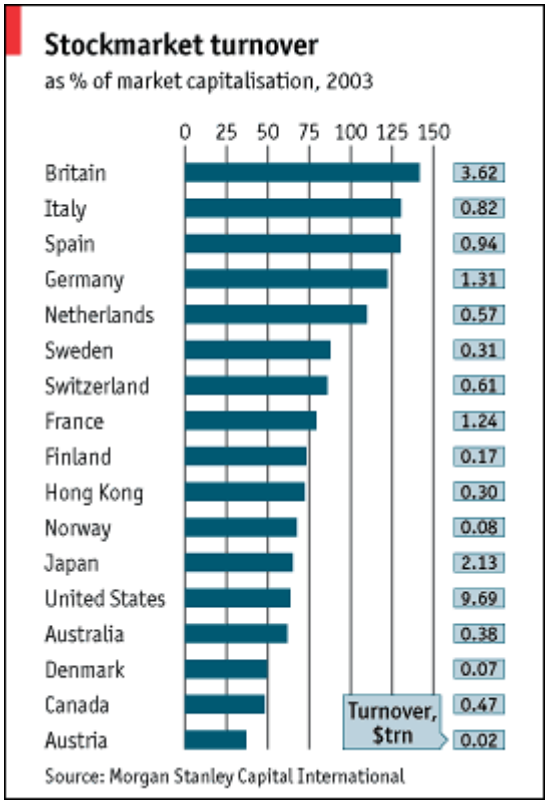

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Overview

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From The Economist print edition

Brazil's economy shrank by 0.1% in the year to the fourth quarter. In **Colombia**, however, economic growth is at its fastest pace in years. GDP grew by 4.3% in the year to the fourth quarter, which analysts attribute to the government's success in the country's civil war. In the year to January, industrial production rose by 8.8% in **Argentina**, and by 1.8% in **Chile**.

In the year to January, industrial production rose by 4.8% in **South Korea**, and by 11.6% in **Thailand**.

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Asylum seekers

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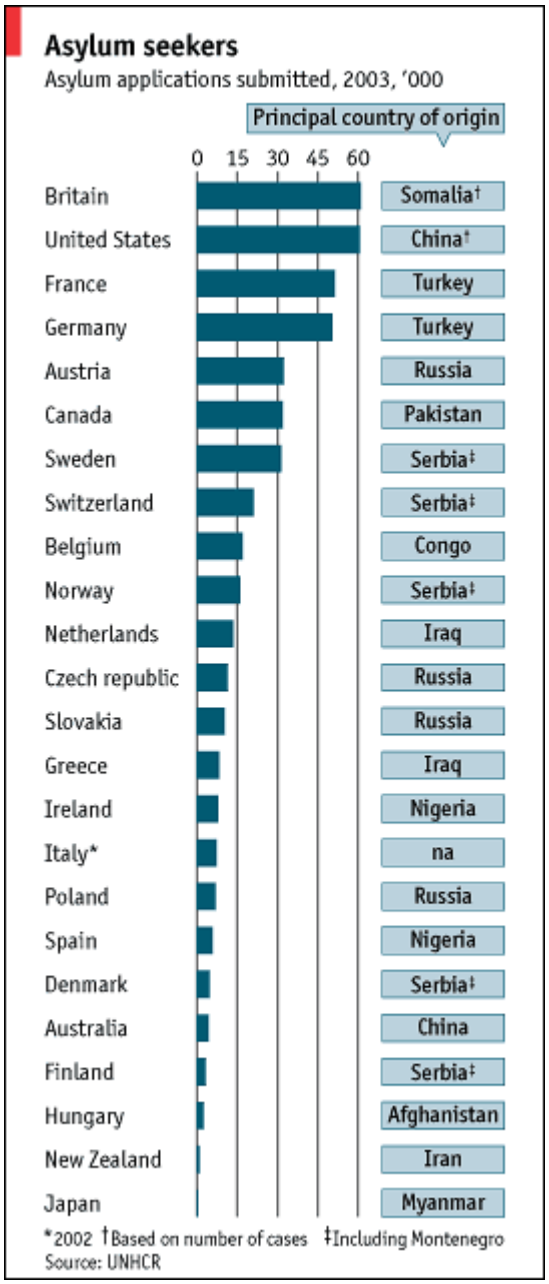
The number of people seeking political asylum in rich countries fell by around 20% between 2002 and 2003. Britain, which for the past four years has been the top destination for asylum seekers, saw a 41% decline in new applicants in 2002, thanks to tough new policies. On a per head basis, however, Sweden took in a greater share of asylum seekers than any other European country. Iraq produced more asylum seekers in Europe than any other origin country in 2002, but only half as many in 2003.



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Economy

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.9	Q4	+ 7.2	Jan	+ 3.2	Jan	+26.6	Jan	+35.4	2002	403.3	Dec
Hong Kong	+ 4.0	Q3	– 9.2	Q3	– 1.5	Jan	– 8.3	Jan	+17.0	Q3	123.6	Jan
India	+ 8.4	Q3	+ 6.2	Dec	+ 4.3	Jan	–15.6	Jan	+ 2.3	Q3	100.8	Jan
Indonesia	+ 4.3	Q4	+ 4.7	Jul	+ 4.6	Feb	+28.5	Jan	+ 8.1	Q2	35.0	Dec
Malaysia	+ 6.4	Q4	+13.5	Dec	+ 1.0	Jan	+19.6	Dec	+11.9	Q3	43.5	Jan
Philippines	+ 4.5	Q4	– 3.1	Dec	+ 3.4	Jan	– 1.8	Dec	+ 3.1	Oct	12.9	Jan
Singapore	+ 4.9	Q4	+ 5.8	Jan	+ 1.3	Jan	+15.1	Jan	+25.6	Q3	98.6	Jan
South Korea	+ 2.3	Q3	+ 4.8	Jan	+ 3.3	Feb	+21.1	Feb	+12.4	Dec	162.1	Feb
Taiwan	+ 5.2	Q4	– 1.1	Jan	nil	Jan	+17.7	Jan	+28.6	Q4	214.9	Jan
Thailand	+ 6.5	Q3	+11.6	Jan	+ 2.2	Feb	+ 4.2	Jan	+ 8.1	Jan	42.2	Jan
Argentina	+ 9.8	Q3	+ 8.8	Jan	+ 2.3	Feb	+14.8	Jan	+ 8.9	Q3	14.7	Jan
Brazil	– 0.1	Q4	+ 2.9	Dec	+ 7.7	Jan	+26.1	Feb	+ 4.6	Jan	53.3	Jan
Chile	+ 3.0	Q3	+ 1.8	Jan	+ 0.8	Jan	+ 3.1	Jan	– 0.6	Q4	16.0	Jan
Colombia	+ 4.3	Q4	+ 3.6	Dec	+ 6.2	Jan	nil	Nov	– 1.6	Q3	11.1	Jan
Mexico	+ 2.0	Q4	+ 2.4	Dec	+ 4.2	Jan	– 5.6	Jan	– 9.2	Q4	59.2	Feb
Peru	+ 3.1	Dec	– 1.9	Dec	+ 3.4	Feb	+ 0.7	Dec	– 1.1	Q4	9.8	Jan
Venezuela	+ 9.0	Q4	– 4.8	Oct	+21.9	Feb	+15.0	Q4	+ 9.6	Q4	16.0	Dec
Egypt	+ 3.1	2003†	+ 2.6	2003†	+ 5.5	Dec	– 6.0	Jul	+ 3.3	Q3	14.1	Dec
Israel	– 0.6	Q4	+ 1.3	Dec	– 2.3	Jan	– 6.1	Jan	– 0.2	Q3	25.7	Feb
South Africa	+ 1.5	Q4	– 1.4	Dec	+ 0.2	Jan	+ 2.1	Dec	– 1.3	Q3	6.5	Dec
Turkey	+ 4.8	Q3	+21.1	Dec	+14.3	Feb	–21.9	Dec	– 5.5	Nov	33.6	Dec
Czech Republic	+ 3.4	Q3	+ 8.9	Dec	+ 2.3	Jan	– 2.5	Jan	– 7.8	Q3	26.6	Jan
Hungary	+ 3.5	Q4	+ 7.6	Dec	+ 6.6	Jan	– 3.8	Dec	– 5.2	Dec	13.2	Jan
Poland	+ 3.9	Q3	+14.3	Jan	+ 1.7	Jan	– 9.7	Dec	– 3.2	Dec	35.4	Jan
Russia	+ 5.7	Q3	+ 7.5	Jan	+11.4	Jan	+60.0	Dec	+39.1	Q4	80.2	Jan
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 4.6	Q3	+ 7.6	Jan	+ 0.5	Jan	– 2.0	Dec	– 1.6	Q4	1.2	Jan
Latvia	+ 7.3	Q3	+ 6.9	Dec	+ 3.9	Jan	– 2.0	Dec	– 0.9	Dec	1.4	Jan
Lithuania	+10.6	Q4	na		– 1.3	Jan	– 2.6	Dec	– 1.1	Q3	3.3	Jan
Slovakia	+ 4.2	Q3	+ 3.5	Dec	+ 8.3	Jan	– 0.6	Jan	– 0.5	Nov	11.8	Jan
Slovenia	+ 2.3	Q3	+ 3.6	Dec	+ 3.6	Feb	– 0.8	Dec‡	nil	Dec	8.5	Dec
Pakistan	+ 5.1	2003†	+20.8	Oct	+ 5.2	Jan	– 1.4	Jan	+ 3.6	Q4†	11.0	Dec
Saudi Arabia	+ 1.0	2002	na		+ 0.4	Nov	+41.8	2002	+11.9	2002	22.6	Dec

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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Financial markets

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	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Mar 3rd		Dec 31st 2002	
	Mar 3rd	year ago	Mar 3rd	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	15.1	na	1,741.6	+0.9	+ 22.7	+ 22.7
Hong Kong	7.79	7.80	14.2	0.21	13,454.1	-1.1	+ 44.3	+ 44.5
India	45.2	47.7	82.5	4.33	5,842.2	+4.0	+ 73.0	+ 83.4
Indonesia	8,565	8,845	15,623	7.81	776.8	nil	+ 82.8	+ 91.0
Malaysia	3.80	3.80	6.93	3.03	877.2	+0.6	+ 35.7	+ 35.7
Philippines	56.2	54.8	102.5	9.06	1,463.0	-0.4	+ 43.7	+ 36.4
Singapore	1.71	1.73	3.12	0.75	1,880.6	+0.7	+ 40.2	+ 42.0
South Korea	1,178	1,199	2,148	4.00	895.8	+3.3	+ 42.7	+ 43.8
Taiwan	33.3	34.6	60.7	1.05	6,932.2	+4.3	+ 55.7	+ 62.7
Thailand	39.5	42.5	72.0	1.32	696.2	-1.2	+ 95.3	+113.1
Argentina	2.91	3.17	5.31	3.06	1,203.4	+2.1	+129.2	+164.8
Brazil	2.88	3.58	5.26	16.30	22,550.5	+4.4	+100.1	+145.7
Chile	601	756	1,096	1.68	7,770.7	+2.6	+ 54.8	+ 85.6
Colombia	2,672	2,961	4,874	7.76	2,953.9	-4.5	+ 83.6	+ 97.0
Mexico	11.0	11.2	20.1	6.31	10,053.2	+1.3	+ 64.1	+ 55.7
Peru	3.48	3.47	6.34	3.82	2,754.8	+1.2	+ 97.9	+100.2
Venezuela	3,289§	1,598	6,000	na	27,909.6	+0.1	+248.2	+ 46.8
Egypt	6.19	5.60	11.29	7.50	13,374.1	+0.4	+149.0	+ 86.3
Israel	4.51	4.86	8.23	1.26	569.5	+0.2	+ 71.3	+ 80.3
South Africa	6.88	7.90	12.5	8.15	11,178.5	+4.0	+ 20.5	+ 50.3
Turkey	1,331,000	1,604,500	2,427,744	21.00	19,171.9	+2.5	+ 84.9	+130.6
Czech Republic	27.1	29.1	49.3	2.06	776.4	+2.4	+ 68.5	+ 87.4
Hungary	211	224	385	12.51	10,583.5	+5.4	+ 35.7	+ 44.4
Poland	3.98	3.91	7.25	5.52	23,718.8	+4.7	+ 65.1	+ 59.3
Russia	28.6	31.6	52.2	14.00	667.3‡	+1.6	+ 66.6	+ 85.8
EMF (MSCI)*	1.00	1.00	1.82	na	482.4	+2.4	+ 65.2	+ 65.2
EMBI+†	1.00	1.00	1.82	na	298.2	+0.6	+ 30.3	+ 30.3

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. § Floating exchange rate.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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